

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 18–21, 2018

Agenda Item 8

For:

☐ Approval

☒ Discussion

☐ Information

Public Sector Measurement

Project summary	Project will revise IPSAS requirements for measurement and measurement-related disclosure, provide guidance on measurement and address the treatment of transaction costs and borrowing costs.	
	Topic	Agenda Item
Project management	Instructions —Up to September 2018 meeting	8.1.1
	Decisions —Up to September 2018 meeting	8.1.2
	Project roadmap	8.1.3
Decisions required at this meeting	IPSAS <i>Measurement</i> —A Project Overview	8.2.1
	Fair value—IFRS 13, <i>Fair Value Measurement</i> , text	8.2.2
	Exposure draft, <i>Measurement</i>	8.2.3
	Consultation paper, <i>Public Sector Measurement</i>	8.2.4
Supporting documents	Consultation Paper and Exposure Draft, <i>Measurement</i>	8.3.1

Agenda Item

8.1.1

IPSASB Instructions—June 2018 meeting and earlier

Meeting	Instructions	Actions
June 2018	1. Develop the flow chart for subsequent measurement of assets so that it also addresses financial instruments.	Done
	2. Develop definitions or explanations of key terms used in the flowchart.	Done
	3. Provide recommendations on what amendments should be made to the text of IFRS 13, <i>Fair Value Measurement</i> , for inclusion in ED, <i>Measurement</i> .	Done
	4. Revise the table of equivalence.	In progress
	5. Develop a flow chart and ED text for the subsequent measurement of liabilities, and consider the contractual/non-contractual distinction during development.	Done/ in progress
	6. Develop an At-a-Glance summary of the project.	Topic 1's project overview
March 2018	1. Present combined CP and ED document using mark-up to identify text changes since March.	Done
	2. For ED, (a) locate definitions after scope paragraph(s); (b) include all IFRS 13 definitions and other material for fair value, (c) add a Basis for Conclusions, (d) remove ED footnotes, (e) review IPSAS 17 for coverage to include, and (f) retain two impairment IPSASs.	Done
	3. For the ED's Basis for Conclusions (a) include Chapter 7's discussion of fair value, (b) show relationship between fair value and market value, and (c) reflect IPSASB's decision that fair value may apply.	Done
	4. For CP, (a) consider whether outline approved in December should be revised, (b) revise arguments in Chapter 3 and circulate for intermeeting IPSASB review.	Done
	5. Develop a flow chart for measurement of assets and focus on asset measurement for June.	Done
	6. Transaction costs and borrowing costs: (a) consider how IVS define transaction costs, (b) develop two definitions for transaction costs	

Meeting	Instructions	Actions
	<p>related to entry/exit values, and (c) provide recommendation on whether transaction costs should be discussed in the CP or in the ED's Basis for Conclusions.</p> <p>7. Develop an equivalence table.</p> <p>8. Consider qualitative characteristics and constraints as they apply to measurement.</p>	<p>In progress</p> <p>Done</p> <p>In progress</p>
Dec 2017	<p>1. Consider definitions used in International Valuation Standards (IVS) and Government Finance Statistics (GFS).</p> <p>2. Monitor discount rate developments and bring paper to IPSASB's September 2018.</p> <p>3. Review IPSASs against the Conceptual Framework with no presumption that current measurement requirements should continue.</p> <p>4. Develop ED sections for the March 2018 IPSASB meeting.</p>	<p>1. Done</p> <p>2. In progress</p> <p>3. Done</p> <p>4. Done</p>
Sept 2017	<p>1. Develop a hybrid IPSAS that applies the Conceptual Framework to public sector specific (PSS) measurement issues and has a section on application of IFRS 13's approach to fair value (Option B)</p> <p>2. Develop an outline of the CP</p> <p>3. Develop a description of public sector specific (PSS) measurement issues</p> <p>4. Develop proposals for when either a PSS measurement approach is needed or where an IFRS 13 fair value measurement approach could apply</p> <p>5. Consider the boundary between IPSAS, <i>Measurement</i>, and individual IPSASs</p> <p>6. Test responses to CP, <i>Heritage</i>, against the PS Measurement approach</p>	<p>1. In progress</p> <p>2. Done</p> <p>3. Done</p> <p>4. Done</p> <p>5. Done. See ED outline</p> <p>6. Will apply ED principles</p>

Agenda Item

8.1.1

Meeting	Instructions	Actions
June 2017	<ol style="list-style-type: none"> 1. Consider convergence with IFRS, particularly scope to incorporate an IFRS 13, <i>Fair Value Measurement</i>, approach into IPSAS 2. Apply the Conceptual Framework's measurement objective to the treatment of transaction costs 3. For September 2017 IPSASB meeting: <ol style="list-style-type: none"> a) Bring back the transaction costs and borrowing costs issues as part of a more general discussion of asset valuation for the IPSASB's consideration; b) Provide an education session on IFRS 13 and its post-implementation review; and c) Discuss ways to address fair value in IPSAS, in the context of the Conceptual Framework's approach to current value measurement and IFRS 13's approach. 	<ol style="list-style-type: none"> 1. Done 2. Done 3 (a) Done 3 (b) Done 3 (c) Done
March 2017	<ol style="list-style-type: none"> 1. Revise project brief and create project page 2. Develop a questionnaire for IPSASB/Technical Adviser/Observers' input on the project's scope 3. Identify project work streams 4 Provide education session on the IASB's post implementation review of IFRS 13 in September 5. Log information on how other IPSASB projects relate to the Public Sector Measurement project 	<ol style="list-style-type: none"> 1. Done 2. Done 3. Done 4 Done 5 Done
September 2015 to December 2016	Project awaits start. First discussion in March 2017	Done
June 2015	Revise project brief for IPSASB revisions.	Done

Agenda Item

8.1.2

IPSASB Decisions—June 2018 meeting and earlier

Meeting	Decisions
June 2018	<ol style="list-style-type: none"> 1. The table of equivalence will not be authoritative 2. The measurement basis for subsequent measurement of liabilities can be different from that for initial measurement
March 2018	<ol style="list-style-type: none"> 1. Agreed ED paragraphs for objective and scope 2. ED, <i>Measurement</i> will cover measurement for all IPSASs 3. ED, <i>Measurement</i>, will include IFRS 13 text, not refer to IFRS 13 4. ED, <i>Measurement</i>, will have a Basis for Conclusions 5. Agreed a Preliminary View to expense all borrowing costs
December 2017	<ol style="list-style-type: none"> 1. Apply ED and CP outlines (December 2017 meeting) for their development 2. For project's timeline, Route 1 used for planning purposes
September 2017	<ol style="list-style-type: none"> 1. The CP will wrap around an ED 2. IPSAS, <i>Measurement</i>, should be a hybrid IPSAS that applies the Conceptual Framework to public sector specific measurement issues and has a section on application of IFRS 13 fair value 3. Treatment of borrowing costs issue will be included in the CP 4. Project will address measurement of heritage and infrastructure assets through Application Guidance in IPSAS, <i>Measurement</i>
June 2017	Work on measurement guidance and disclosures will occur after work on measurement bases
March 2017	Approved revisions to the project brief
September 2015 to December 2016	No decisions as project awaits start. First discussion will be in March 2017.
June 2015	Approved the "Public Sector Measurement" project brief

Agenda Item

8.1.3

Public Sector Measurement Project Roadmap

Meeting	Completed Discussions/ Planned Discussions:
Next meeting	
December 2018	<ol style="list-style-type: none"> 1. Decision on consultation methodology (Route 1 or Route 2). 2. Approval of any Application Guidance or outline Amendments to Other IPSASs available by December 2018. 3. Approve the CP/ED for issuance.
This meeting	
September 2018	<ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on Measurement on Derecognition, and Disclosures in respect of Measurement. 2. Consideration of links with Infrastructure and Heritage projects in terms of Application Guidance and Amendments to Other IPSASs.
Past meetings	
June 2018	<ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on Objective, Scope, Definitions, Transaction and Borrowing Costs, Measurement on Initial Recognition, and Subsequent Measurement.
March 2018	<ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on scope.
December 2017	<ol style="list-style-type: none"> 1. Approval of outline of draft Consultation Paper (CP) and Exposure Draft (ED) and revisions to the Project Roadmap. 2. Public Sector Measurement – contextual paper. 3. The approach to reviewing IPSASs for public sector measurement requirements and fair value references, including examples.
September 2017	<ol style="list-style-type: none"> 1. Education session on Measurement in the Conceptual Framework, IFRS 13, Fair Value Measurement, Government Finance Statistics (GFS) reporting guidelines and International Valuation Standards (IVS). 2. Options for broad approach. 3. Valuation, transaction costs and borrowing costs. 4. Issues raised by IPSAS measurement of liabilities.
June 2017	<ol style="list-style-type: none"> 1. Preliminary analysis of IPSAS measurement requirements, including treatment of transaction costs.
March 2017	<ol style="list-style-type: none"> 1. Introduction to the project. 2. Project objectives and timetable. 3. Revised project brief.
Indicative	<i>Indicative—Next steps after December 2018</i>
Mid-January to mid-May 2019	<ol style="list-style-type: none"> 1. Consultation Period

Agenda Item

8.1.3

Meeting	Completed Discussions/ Planned Discussions:
March 2019	<ol style="list-style-type: none"> 1. Consider further Application Guidance if available. 2. Consider further Amendments to Other IPSASs if available.
June 2019	<ol style="list-style-type: none"> 1. Initial review of responses to consultation. 2. Discussion of issues raised by constituents. 3. Consider further Application Guidance if available. 4. Consider further Amendments to Other IPSASs if available.
	Route 1
September 2019	<ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement.
December 2019	<ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement
March 2020	<ol style="list-style-type: none"> 1. Approve IPSAS on Public Sector Measurement. 2. Consider consequential amendments in respect of Application Guidance and Amendments.
June 2020	<ol style="list-style-type: none"> 1. Consider consequential amendments in respect of Application Guidance and Amendments.
Mid-July to mid-November 2020	
September 2020	<ol style="list-style-type: none"> 1. Approve ED on consequential amendments in respect of Application Guidance and Amendments.
Mid-October 2020 to mid-Feb 2021	<ol style="list-style-type: none"> 1. Consultation Period.
December 2020	
March 2021	<ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Review of draft pronouncement on consequential amendments.
June 2021	<ol style="list-style-type: none"> 1. Approve pronouncement on consequential amendments.

IPSAS Measurement—A Project Overview

Questions

1. Does the IPSASB:
 - (a) Agree that individual IPSASs should provide guidance on which measurement bases should be used and IPSAS, *Measurement*, should provide guidance on what the measurement bases mean and how to apply them (paragraph 9)?
 - (b) Then agree that the Exposure Draft and Consultation Paper contents should be revised as set out in paragraphs 10 and 11?

Detail

2. It became clear during IPSASB discussions in June 2018 that there were differing understandings about the impact of the decisions taken in September 2017 (paragraph 8 below) and later meetings (paragraph 9 below) in terms of the outputs from the Public Sector Measurement project and their range. These gave rise to a number of questions about exactly what will be included in a future IPSAS, *Measurement*, and how that IPSAS will interact with existing IPSAS.
3. In the light of the apparent divergences in expectations, following the June 2018 meeting, the IPSASB Chair, Task Force Chair, Technical Director and Staff have considered the issues concerned in depth. This paper is the result. It provides an overview of the approach the IPSASB has taken in developing an IPSAS on public sector measurement and looks at what needs to be done to complete this stage of the project.

The project rationale and objectives

4. In March 2017, the IPSASB approved the revised Project Brief for the Public Sector Measurement project. In that Project Brief, the rationale and objectives are stated as follows:
 - (a) The project rationale is that the measurement requirements and guidance in many current IPSASs are not consistent with the Conceptual Framework and should be amended.
 - (b) The objectives are:
 - (i) To issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure;
 - (ii) Provide more detailed guidance on the implementation of replacement cost and cost of fulfilment and the circumstances under which these measurement bases will be used; and
 - (iii) Address transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs.
5. As discussed at the March 2017 IPSASB meeting, the intention is to publish an IPSAS on Measurement that:
 - (a) Works well for public sector specific assets and liabilities;
 - (b) Generates useful information that achieves the Conceptual Framework's measurement objective and qualitative characteristics while taking account of the constraints on information in general purpose financial reports;

- (c) Improves consistency across IPSAS to improve the comparability of financial statements;
- (d) Brings IFRS 13, *Fair Value Measurement*, into IPSASB literature to the extent that an exit value is relevant to certain transactions and balances; and
- (e) Reduces unnecessary differences between IPSAS and Government Finance Statistics (GFS) reporting guidelines.

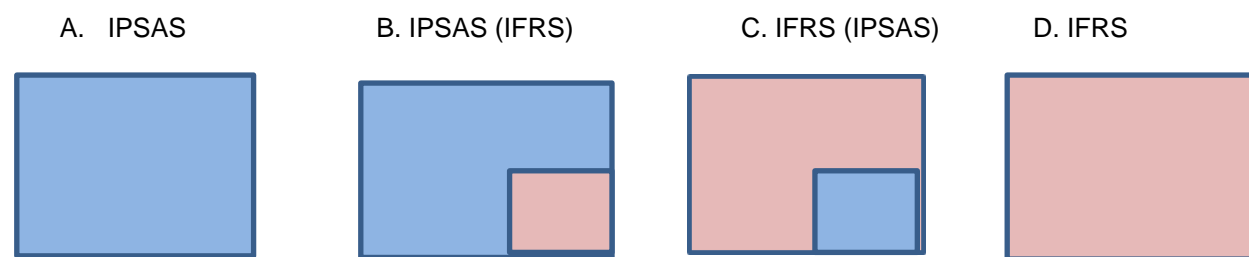
Measurement in existing IPSASB literature

6. A review of extant IPSASs shows that:

- (a) 'Measurement' sections are presented in different ways in different IPSASs and sometimes with wording that is similar but exactly the same (compare the wording in IPSAS 17.44 with the wording in IPSAS 16.74, for example) and, outside of the financial instruments standards, only IPSAS 23, IPSAS 26, IPSAS 31 and IPSAS 32 provide any Implementation Guidance or Application Guidance on measurement;
- (b) References to 'fair value' are scattered throughout IPSAS¹ and all of these references need to be reviewed and decisions taken on whether 'fair value' means 'fair value' as defined in IFRS 13 and so can be retained or what term to use in place of 'fair value' where the IFRS 13 definition is not appropriate; and
- (c) Some IPSASs might need more in-depth analysis than others to determine the need for, and extent of any amendments required (for example, IPSAS 12, *Inventories*, and IPSAS 21, *Impairment of Non-Cash-Generating Assets*).

Delivering the project objectives—key decisions already taken

7. In assessing what a future IPSAS, *Measurement*, might look like, the options presented to the IPSASB in September 2017 were shown diagrammatically, as reproduced below.



The Task Force recommended Option B, as it would mainly address public sector measurement needs, while also identifying those areas where IFRS 13 is appropriate for current value measurement. Option B is not a rules of the road project, although it allows for some IFRS convergence. The IPSASB agreed with the recommendation, but noted that, depending on a review of each IPSAS, the result may be closer to Option C.

¹ IPSAS 1, 2, 3, 4, 9, 10, 11, 12, 13, 16, 17, 20, 21, 23, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, (41) and Financial Reporting under the Cash Basis of Accounting

8. In addition to deciding to pursue Option B, the IPSASB also decided that:
- (a) A first ED will be issued within a CP. The ED will include material on measurement principles and deal with terminology and IFRS 13 material as appropriate and will be issued as ED XX, *Measurement*, in line with the usual due process requirements. The CP will discuss issues where the IPSASB seeks constituents' views on matters such as the treatment of transaction costs and borrowing costs and where application guidance is needed. Neither the ED nor the CP will incorporate amendments to existing IPSASB literature—a second ED relating to consequential amendments will be issued once IPSAS, *Measurement*, has been approved;
 - (b) There should be no reconsideration of the alternative approaches to subsequent measurement set out in the Conceptual Framework—the historical cost and revaluation models will be retained and there will be text in the Basis for Conclusion section that briefly discusses the context of the decision that a jurisdiction will have taken on whether the historical cost or revaluation model will be applied for subsequent measurement;
 - (c) The term 'fair value' will be used in IPSASB literature with the same meaning as the term has in IFRS 13; and
 - (d) The CP will discuss the accounting treatment of transaction costs and borrowing costs, with a preliminary view that all borrowing costs should be expensed.

Decisions that now need to be taken on content—placement of material

9. Although not explicitly covered in June 2018, the IPSASB's discussions at that meeting were founded on the decisions that have already been taken. What became clear, however, was that there is a need for the IPSASB to agree on the structure of IPSASB literature that will include an IPSAS, *Measurement*: the placement of material in either IPSAS, *Measurement*, or in existing IPSASs, and the balance between them. The IPSASB is asked to consider the following **recommended approach** which emerged in the post-June meeting discussions referred to in paragraph 3:
- (a) Which: individual IPSASs will say which measurement basis should be used and what disclosures should be made;
 - (b) What: IPSAS *Measurement* will define what each measurement basis means, with explanatory material in the core text;
 - (c) How: IPSAS *Measurement* will provide Application Guidance on how to derive the measurement; and
 - (d) Why: IPSAS *Measurement* Basis for Conclusions will provide the rationale for why the IPSASB has reached its decisions.

The effect of this approach could be to remove all material on the 'what' and the 'how' from individual IPSASs through the mechanism of the second ED referred to in 8(a) above.

Decisions that need to be taken now on content—the Exposure Draft

10. If the IPSASB agrees with the placement of material as recommended in paragraph 9, then the first ED (of IPSAS, *Measurement*, alone) will contain the following material:
- (a) *Core text.* This will focus on definitions of, and explanatory text about, the measurement bases and will state that individual IPSASs contain the requirements for which basis to use in given situations. It is likely that the outline ED approved at the December 2018 meeting will need to be adapted to accommodate this approach (some of the detail shown as being in the text might move to the appendices, for example).
 - (b) *Appendices with application guidance.* The IPSASB has discussed the need for application guidance generally. Responses to the questionnaire circulated to Members and Technical Advisers and Observers after the March 2017 meeting suggested that, in addition to fair value, the IPSASB needs to provide application guidance in relation to:
 - (i) (depreciated) replacement cost (several examples of specialized assets were cited – including infrastructure assets, military assets and heritage assets);
 - (ii) initial recognition and measurement where no historical information is held; and, for liabilities; and
 - (iii) cost of fulfillment.

Guidance may also be needed on the other bases referred to in the Conceptual Framework currently in use in IPSASB literature.
 - (c) *Basis for Conclusions.*

Decisions that need to be taken now on content—the Consultation Paper

11. The CP will then:
- (a) Explain the overall approach to the Measurement project, and the rationale for the material included in the ED IPSAS, *Measurement*;
 - (b) Include the initial versions of flowcharts that the IPSASB has used to develop proposals on which measurement basis should be used for different types of assets (liabilities) in different circumstances;
 - (c) Provide a table summarizing the measurement bases for which application guidance will be included in the IPSAS and the source and type (coverage) of the guidance;
 - (d) Seek constituents' views on whether (1) the application guidance planned for inclusion is sufficient for those measurement bases and any amendments or additions required to this, and (2) there are other measurement bases where application guidance is needed;
 - (e) Include a general discussion – but no detail – of potential impacts/changes to individual IPSASs (for example, the application guidance included for fair value will impact on IPSASs 16 and 41, and the application guidance for replacement cost will impact on IPSAS 17 and IPSAS 31);
 - (f) Include the comparison table with IVSC and GFS guidance; and
 - (g) Discuss the accounting treatment of transaction costs and borrowing costs.

Preliminary views will be provided where appropriate.

Impact on the staged approach

12. As noted in paragraph 8(a), the IPSASB has already agreed to a staged approach to delivery of the project with the development of an ED for IPSAS, *Measurement*, as the first stage, followed by consequential amendments to other IPSASs as the second stage. The aim, set out in the Project Roadmap, is to approve IPSAS, *Measurement*, in March 2020 and consequential amendments in June 2021. If the IPSASB accepts the recommendation in paragraph 9 (and the changes to the content of the ED and CP in paragraphs 10 and 11), the proposed presentation of material in the CP and first ED may need to change from that already discussed by the IPSASB in order to obtain the maximum benefit from consultations with constituents. (This will be discussed in later papers.)
13. Any changes to the presentation of material will not change the staged approach, which is summarized below:
 - (a) *Stage 1*: issue an ED within a CP in accordance with the Board's original decision. The ED will be in the form laid out in paragraph 10. The Application Guidance that will be included will be that relating to fair value (IFRS 13 material) and material relating to the topics in paragraph 10(b) moved from other IPSASs. The ED will also contain definitions and consider the replacement of the term 'fair value' in existing IPSASs where it does not mean 'fair value' as defined in IFRS 13. The CP will take the form laid out in paragraph 11.
 - (b) *Stage 2*: based on feedback from constituents, the aim (if possible) is to finalize the ED as IPSAS, *Measurement*. Based on this final IPSAS (or a second ED if constituents raise major issues), develop an ED of consequential amendments to the existing suite to implement the changes in terminology approved for IPSAS, *Measurement*, the deletions of measurement material, and any guidance on measurement bases not already included but agreed by the IPSASB to be necessary following the consultation at Stage 1.

Decisions required

The IPSASB is invited to agree with the recommendations in paragraphs 9, 10 and 11.

REVIEW OF FAIR VALUE MEASUREMENT

Purpose

1. To communicate the Financial Instruments Task Force's recommendation on what guidance in IFRS 13, *Fair Value Measurement*, should be retained and incorporated into IPSAS.

Detail

2. The Financial Instruments Task Force evaluated what guidance from IFRS 13 is necessary to support the application of fair value measurement for financial instruments within the scope of IPSAS 41 (see process narrative in [Appendix D](#)).
3. As the evaluation in paragraph 2 only considered financial items, staff performed an additional analysis that considered whether the deleted paragraphs are necessary to support the measurement of non-financial items at fair value. The analysis was performed in the context of IPSAS 16, *Investment Property* (see analysis in [Appendix B](#)).

Task Force Recommendation

4. All IFRS 13 guidance, except for paragraphs 23-29 and AG3², is recommended to be retained to support fair value measurement for financial instruments within the scope of IPSAS 41 (see analysis in [Appendix A](#)).
5. The analysis performed by the Task Force represents a first step. The Task Force felt it was important to highlight the need for the Measurement Task Force to step back and consider how the fair value guidance is incorporated into the IPSASs from a holistic and consistency perspective.
6. The Task Force agreed that the analysis of non-financial items is necessary and the conclusion is appropriate. However, the Task Force withheld its own recommendation, as evaluating whether guidance in IFRS 13 is necessary to measure the fair value of non-financial items is beyond the mandate set by the IPSASB.

Staff Recommendation

7. The staff recommendation is that fair value measurement guidance for non-financial assets in paragraphs 23-29 and AG3 should be retained to support the application of fair value measurement for non-financial items held for financial capacity (see analysis in [Appendix B](#)).

Decisions required

Does the IPSASB agree with the:

- 1) Task Force Recommendation; and
- 2) The Staff Recommendation

² Paragraphs references correspond to marked up version of IFRS 13 included in the measurement consultation paper / exposure draft.

Guidance Retained from IFRS 13

Analysis

1. This table summarizes the guidance in IFRS 13 recommended to be retained in order to support the application of fair value measurement in the public sector.

Section (Paragraph ref IFRS / IPSAS)	Step One Retain for IPSAS 41	Step Two Retain for IPSAS 16 ³	Conclusion
OBJECTIVE Paragraphs 1-4 (IFRS) / n/a (ED)	Retain Outlines purpose of standard, important to explain to readers	-	Retain⁴
SCOPE Paragraphs 5-8 (IFRS) / 1-4 (ED)	Retain Indicates standards outside of the scope	-	Retain⁴
DEFINITIONS Paragraphs App A (IFRS) / n/a (ED)	Retain Defines key terms	-	Retain⁴
MEASUREMENT			
Definition of fair value Paragraphs 9-10 (IFRS) / 5-6 (ED)	Retain Definition is consistent with IPSAS 41 – if we are developing a fair value standard that will be used by IPSAS 41, the definitions must be consistent	-	Retain
The asset or liability Paragraphs 11-14 (IFRS) / 7-10 (ED)	Retain Explains a component of the definition of fair value	-	Retain
The transaction Paragraphs 15-21 (IFRS) / 11-17 (ED)	Retain Explains a component of the definition of fair value	-	Retain
Market participants Paragraphs 22-23 (IFRS) / 18-19 (ED)	Retain Explains a component of the definition of fair value	-	Retain
The price Paragraphs 24-26 (IFRS) / 20-22 (ED)	Retain Explains a component of the definition of fair value	-	Retain
Application to non-financial assets Paragraphs 27-33 (IFRS) / 23-39 (ED)	No Concept of <i>highest and best use</i> does not apply to financial instruments. Financial instruments are contracts to pay/receive cash, there is no other use	Retain See analysis in see Appendix B	Retain
Application to entity's own equity instruments	Retain This section is specific to financial	-	Retain

³ Step two was performed when principles were proposed to be removed in step one

⁴ Whether this guidance is retained depends on where the IPSASB concludes the fair value guidance is incorporated into IPSAS (i.e., standalone standard, application guidance to public sector measurement standard, etc.)

Section (Paragraph ref IFRS / IPSAS)	Step One Retain for IPSAS 41	Step Two Retain for IPSAS 16 ³	Conclusion
Paragraphs 34-47 (IFRS) / 30-43 (ED)	instruments		
Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk Paragraphs 48-56 (IFRS) / 44-52 (ED)	Retain This section is specific to financial instruments	-	Retain
Fair value at initial recognition Paragraphs 57-60 (IFRS) / 53-56 (ED)	Retain Explains the difference between entry/exit price and what to do if there is a difference on day one. The entry price is often the exit price on day one – this is a key paragraph to help with application.	-	Retain
Valuation techniques Paragraphs 61-66 (IFRS) / 57-62 (ED)	Retain Provides guidance on what to consider in developing a technique. Important for unquoted equity instruments.	-	Retain
Inputs to valuation techniques Paragraphs 67-71 (IFRS) / 63-67 (ED)	Retain Provides guidance on what information to use in valuing instrument. Important for unquoted equity instruments.	-	Retain
Fair value hierarchy Paragraphs 72-90 (IFRS) / 68-86 (ED)	Retain Provides guidance on the quality of inputs used in valuation. This is important in valuing all financial instruments (level 1 – actively traded common shares, level 2 – interest rate swaps, level 3 – unquoted equity instruments)	-	Retain
DISCLOSURE Paragraphs 91-99 (IFRS) / n/a (ED)	Retain These disclosures are important as they require specific information depending on the quality of inputs (i.e., more disclosure for lower level of inputs). This helps users.	-	Retain

Retention of Guidance for Non-Financial Assets

Purpose

1. To support the staff recommendation that guidance for non-financial assets in IFRS 13 should be retained.

Detail

2. Paragraphs 23-29 and AG3⁵ of IFRS 13 provide guidance for measuring the fair value of non-financial assets. Staff recommend retaining this guidance as it is necessary for measuring the fair value of investment property in IPSAS 16, *Investment Property*.

Analysis

3. *Highest and best use (Paragraphs 23-26)*

- (a) Principle – considers a market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling to another market participant who would use the asset in its highest and best use (generally this is most relevant in measuring real estate).
- (b) Example – the City of Toronto operates a parking lot in the city. It currently generates CU1 million in revenues a year (assume the present value of CU1 million in perpetuity is CU10 million). A developer would be willing to pay CU100 million for the property with the intention to build condominiums. Even though the City is not using the parking lot for condominiums, from an economic perspective, condominiums are the highest and best use and therefore this is the basis of the fair value measurement.
- (c) Why it should be retained – when fair value is applied, as is the case in IPSAS 16, *Investment Property*, retaining “highest and best use” guidance provides clarity and enhances the consistency in measuring fair value.

As investment property is held by public sector entities to generate cash flows, either by way of collection of rents or through sale at a later date when the capital appreciates⁶, evaluating the best way to maximize the economic benefit generated by the investment property is key to proper management of the asset. Using the parking lot example above, if the public sector entity measures the fair value⁷ by discounting the future rental cash flows – the value is CU10 million. By considering the highest and best use, the value is CU100 million.

When an asset is held as an investment, the highest and best use is always the most important basis because the entity's goal is to maximize financial returns (financial capacity). This is true in both the public and private sector. The IPSASB did not depart from IFRS when IPSAS 16 was developed and staff has not identified any reason based on that analysis of IFRS 13 to depart. As such, the use of fair value in IFRS 13 is consistent with how it is used in IPSAS 16.

⁵ Paragraphs references correspond to marked-up version of IFRS 13 included in the measurement consultation paper / exposure draft.

⁶ IPSAS 16.7

⁷ Paragraph 39 provides an accounting policy choice for investment property to be measured at cost or fair value.

While highest and best use is not relevant for all public sector non-financial assets, it is relevant for investment property.

4. *Valuation premise for non-financial assets (Paragraphs 27-29 and AG3)*

- (a) Principle – the highest and best use of a non-financial asset is based on its use either:
 - (i) In combination with other assets as a group or in combination with other assets and liabilities; or
 - (ii) On a stand-alone basis.
- (b) Example – the City of Toronto maintains a land registry for all residential and commercial purchases of property within the city limits. The City generates revenue from this registry through the collection of land transfer taxes. These data are valuable to a real estate company as they control complementary assets that allow the entity to maximize the economic benefits of the registry. These data are not valuable to an individual who does not have the infrastructure in place to generate economic benefits from it. As such, the highest and best use assumes a market participant has all the necessary ancillary assets/liabilities required to benefit from ownership.
- (c) Why it should be retained – this section outlines considerations when evaluating highest and best use. These considerations are applicable when valuing multiple parcels of property that hold more value as a package than individually. For example, a public sector entity may own an office building, parking lot and park all in one city block. Each are held individually to collect rents or, in the case of the park, for capital appreciation. Sold as a package these assets would generate more economic benefits as the buyer could construct a larger building.

While the valuation premise guidance is not relevant for all public sector non-financial assets, it is relevant for investment property.

Public Sector Amendments to IFRS 13**Detail**

1. The following amendments have been made to IFRS 13:

(a) Retain all principles

Principles in IFRS 13 were evaluated to determine what literature is necessary to support the application of fair value measurement in the public sector. The evaluation was performed from the perspective of IPSAS 16 and IPSAS 41.

All guidance was retained (see [Appendix A](#)).

(b) Public sector terminology

The following terminology⁸ changes are proposed to maintain consistency with existing IPSASs:

IFRS 13	IPSAS ED
profit or loss	surplus or deficit
other comprehensive income	net assets/equity
LIBOR	interbank offered rate
reliable	faithfully representative
Business	Operation
IFRS	IPSAS
Business Combination	Public Sector Combination

(c) IPSASB formatting

Formating changes are proposed to maintain consistency with existing IPSAS. These include, but are not limited to:

IFRS	IPSAS
eg / ie	e.g., / i.e.,
lower case for sub-bullets	upper case for sub-bullets
british spelling	american spelling
references to other IFRSs	references to other IPSASs
definitions as an appendix	definitons in core text

⁸ Staff reviewed the list of terminology changes proposed for the financial instruments and revenue projects to ensure all common terms were considered. Staff only listed terms that existed in IFRS 13 that required changes.

Process Followed by Staff

Purpose

1. To communicate the process applied in developing the mark-up of IFRS 13.

Detail

2. In developing the recommendation all guidance in IFRS 13 should be retained for the public sector, the following procedures were performed in developing the mark-up of IFRS 13:
 - (a) Marked-up IFRS 13 for public sector terminology changes
 - (i) Staff made standard terminology changes to an IASB document when applying the IPSAS alignment process (see [Appendix C](#)); and
 - (ii) Staff made standard formatting changes to an IASB document when applying the IPSAS alignment process (see [Appendix C](#)).
 - (b) Marked-up IFRS 13 to remove guidance unnecessary to the determination of the fair value of financial instruments as defined in IPSAS 41
 - (i) This analysis was performed only considering instruments in scope of IPSAS 41. The measurement basis of PSSFI will be considered as part of the PSSFI project;
 - (ii) Removed *Highest and Best Use* guidance paragraphs 23-26 (see [Appendix B](#)); and
 - (iii) Removed *Valuation Premise for Non-Financial Assets* paragraphs 27-29 and AG3 (see [Appendix B](#)).
 - (c) Developed a decision tree to evaluate whether a fair value measurement basis permitted in an IPSAS is consistent with fair value as defined in IPSAS 13 (see [Appendix E](#))
 - (i) This decision tree was used to evaluate whether “fair value” in IPSAS 16 is consistent with “fair value” in IFRS 13 (see (d) below).
 - (d) Marked-up IFRS 13 considering whether guidance removed in step (b) is necessary to determine the fair value of investment property as defined in IPSAS 16
 - (i) Additional step performed to ensure the analysis considers the measurement guidance for both financial and non-financial items;
 - (ii) Concluded *Highest and Best Use* and *Valuation Premise for Non-Financial Assets* paragraphs are required to measure non-financial assets (see [Appendix B](#)).

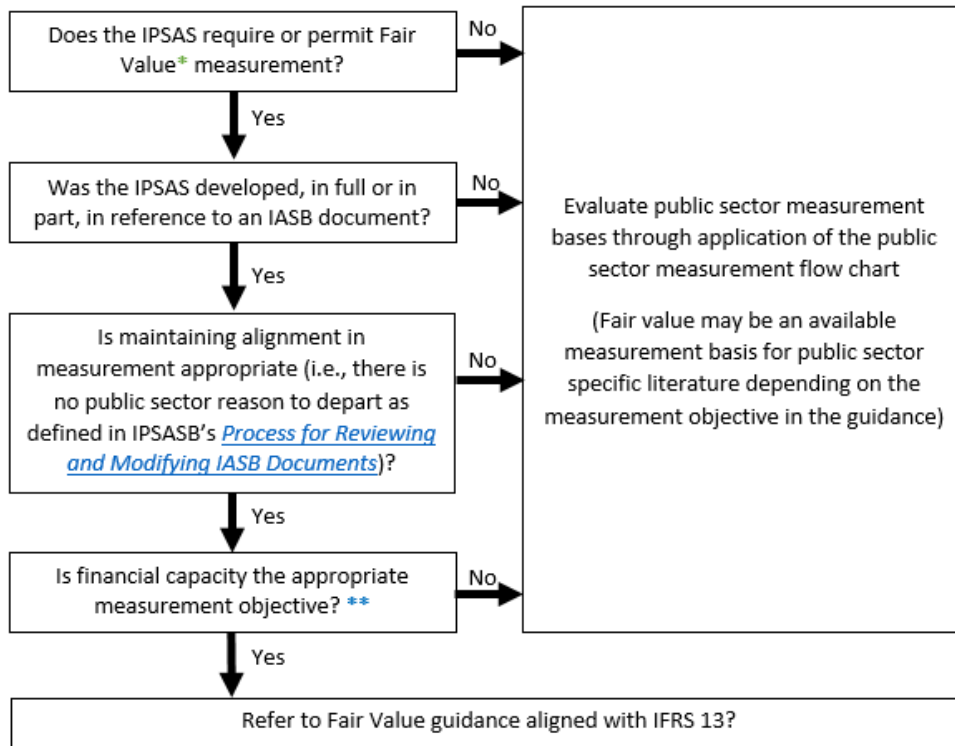
Process for Evaluating Fair Value Measurement in the Public Sector

Purpose

1. To outline the process developed to determine whether a fair value measurement basis permitted in a specific IPSAS is consistent with fair value as defined in IFRS 13.

Detail

2. Staff developed the following process to determine whether “fair value” in IPSAS 16 was intended to be consistent with fair value as defined in IFRS 13:



* At its June 2017 meeting, CAG members noted that clarity as well as consistency in terminology is important. If fair value is used, it should be used in a consistent manner as used in IFRS. For other terms meant to convey different concepts than fair value, other terms should be used, such as current value. Further emphasis was made that IFRS 13 fair value can also be applicable to public sector in certain circumstances. For example if a public sector entity plans to sell assets it is important to know the fair value (exit value) of these assets.

** Consider the financial reporting objective(s) the measurement basis is trying to achieve. Specifically, is the measurement objective providing information that enables users to assess the:

- Cost of service provided;
- Operational capacity to support the provision of services; and/or
- Financial capacity.

Application to IPSAS 16

3. Investment property is held for the collection of rents or capital appreciation, or both. The objective of measuring investment property is to provide users with information over the financial capacity of the asset. Neither cost of service nor operational capacity provide users with appropriate information to evaluate the economics of investment property assets.
4. When financial capacity is the primary measurement objective, an exit value provides users with the most relevant information to evaluate those charged with making decisions.⁹ In the case of investment property, it is held to generate cash flows either through rents or sale at a future date. In order to determine whether the economic benefits are being maximized, the user must know what the fair value – or the maximum price that could be obtained by holding that asset by considering the benefits of collecting cash flows or by selling the asset today (exit price) – is.
5. This is also true of financial instruments—knowledge of their fair value is key to maximizing the economic benefit. In both cases, the measurement objective of investment property and financial instruments is the same; they are both held for their financial capacity. Measuring instruments that are held for the same purpose consistently is in the public interest as it allows users to easily similar compare items.
6. Furthermore, the economic characteristics of holding investment property in the public sector are consistent with the economic characteristics of holding it in the private sector. As such, no public sector reason exists to depart from the IFRS 13 fair value measurement requirements when an entity has elected to measure investment property at fair value.

⁹ An assessment of financial capacity requires information on the amount that would be received on the sale of an asset (Paragraph 7.34 of the conceptual framework).

Exposure Draft, *Measurement*

Question

1. What are the IPSASB's views on:
 - (a) The structure and indicative content in ED, *Measurement*, (agenda paper 8.3.1); and
 - (b) Application guidance for inclusion in the appendices to ED, *Measurement*?

Detail

Core Text for ED, Measurement

2. The draft ED reflects the Project Overview's recommended approach, described in paragraph 10 of agenda paper 8.2.1, which states that the ED's core text will "focus on definitions of, and explanatory text about, the measurement bases and will state that individual IPSASs contain the requirements for which basis to use in given situations."
3. In this version of the ED the objective and the primary scope paragraph (paragraph 2) are the same as that submitted to the June IPSASB meeting, consistent with directions received by project staff. However, scope paragraphs 3-5 are new and modelled on IFRS 13's scope paragraphs (paragraphs 5-8 of IFRS 13), while allowing for multiple measurement bases (rather than just fair value), as is necessary given the ED's aim to address all measurement bases.
4. The ED's list of definitions (paragraph 6) is shorter than the list submitted to the June IPSASB meeting. It incorporates:
 - (a) Definitions for all the measurement bases identified in the Conceptual Framework; and
 - (b) All terms defined in IFRS 13, *Fair Value Measurement*.
5. The draft ED includes a place holder at paragraph 7 for "explanatory text about the measurement bases." The type of text to include here is still to be determined, and this will build on both the IPSASB's views on agenda paper 8.2.2 and the meaning of application guidance, which is discussed below. With reference to previous IPSASB discussions, text might be needed on, for example, the impact that the purpose of holding an asset (financial capacity or operating capacity) has on the measurement basis and on how to determine if an asset is 'specialized' for the purposes of considering the appropriate measurement basis.
6. Paragraph 16 of the ED aims to convey that "individual IPSASs contain the requirements for which basis to use in given situations." It is modelled on IFRS 13's approach, revised to allow for multiple measurement bases (rather than just fair value). IFRS 13 has the equivalent idea in its scope section, and this draft ED presently has the same idea expressed in two places; the scope section and this paragraph, which raises the question of where is the better location.
7. The heading "Disclosures in respect of measurement" has been deleted, on the basis that this section is not needed given the Project Overview recommendations. If the IPSASB agrees that requirements in respect of disclosures should be included in individual IPSAS, then the IFRS 13 disclosure requirements will need to be included in IPSAS 41 and other IPSAS as appropriate.

Development of the Application Guidance Appendices

8. For September, project staff were directed to review IPSASs 17, *Property, Plant and Equipment*, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, and IPSAS 31, *Intangible Assets*, to identify relevant application guidance text and include that text in ED, *Measurement*, showing any revisions to the original text in mark-up. Any material on depreciation and/or impairment that, arguably, could be deemed part of measurement guidance has not been included in the draft ED.
9. ED Appendix B (Cost of Fulfillment) contains the measurement related text from IPSAS 19. The effect of moving this text to [draft] IPSAS, *Measurement*, would be to delete paragraphs 44 to 62 and paragraphs 93 to 96 from IPSAS 19.
10. ED Appendix C (Fair Value) includes IFRS 13 material. The recommendations of the Financial Instruments Task Force and staff (agenda item 8.2.2 refers) have been incorporated in the context of the ED – that is:
 - (a) The Objective section has been deleted because it is encompassed by the overall Objective of [draft] IPSAS, *Measurement*;
 - (b) Definitions have been deleted from the Appendix because they are included in the main body of the ED (paragraph 6); and
 - (c) The section on Disclosure has been deleted to align with the proposals in the Project Overview (and see also paragraph 7 above): instead, this material would need to be retained through insertion into relevant standards.
11. Appendix C also contains the measurement related text from IPSAS 16, *Investment Property*. The effect of moving guidance on fair value out of IPSAS 16 would be to delete from that standard paragraphs 39 to 64.
12. ED Appendix D (Historical Cost) brings together measurement related text from IPSASs 16, 17 and 31. The impact on the three standards would be to delete:
 - (a) Paragraphs 26 to 38 and 65 from IPSAS 16;
 - (b) Paragraphs 26 to 41 and 43 from IPSAS 17; and
 - (c) Paragraphs 41 to 43, 63 to 65, and 73 from IPSAS 31.
13. ED Appendix E (Market Value) contains the measurement related text from IPSAS 17 and IPSAS 31. The effect of including this in [draft] IPSAS, *Measurement*, is to delete:
 - (a) Paragraphs 44 to 46, 49 to 58 and the Implementation Guidance from IPSAS 17; and
 - (b) Paragraphs 74 to 86 and the Application Guidance from IPSAS 31.
14. ED Appendix G (Replacement Cost) reproduces paragraphs 47 and 48 of IPSAS 17. (This is the Appendix where additional material will need to be developed to meet constituents' needs.)
15. During 2017, national jurisdictions provided staff with examples of measurement guidance—a useful source on which to build in developing the ED's appendices. Staff and the Task Force will for December:
 - (a) Refine the text in Appendices B, C, D, E and G and incorporate any other relevant material;

- (b) Identify the type of measurement problems associated with each measurement basis and where application guidance is needed based on our current information;
- (c) Recommend whether application guidance be developed for all or only some of the measurement bases in the Conceptual Framework; and
- (d) Recommend whether the guidance belongs in [draft] IPSAS, *Measurement*, or is better placed in a particular IPSAS.

Revisions to the Basis for Conclusions

16. The ED's *Basis for Conclusions* has been revised to remove text that is not consistent with the Project Overview recommendations. A discussion of the historical cost and revaluation models has been added, as requested in June. Paragraphs BC1 – BC13 and BC16-BC18 have been shaded to indicate that their text is the same as that submitted to the June IPSASB meeting.

Decision required

17. The IPSASB is asked to
- (a) Note the change to the content and style of the ED, based on the recommendations in the Project Overview; and
 - (b) Agree the approach for the December meeting as outlined in paragraph 15.

Consultation Paper, *Public Sector Measurement***Question**

1. What are the IPSASB's views on the indicative content in Chapters 1-5 of the draft consultation paper (CP), *Public Sector Measurement*, (agenda paper 8.3.1)?

Detail

2. The draft CP has been revised to reflect the approach recommended in the Project Overview paper (agenda item 8.2.1, paragraph 11), as summarized in Table 1 on the following page. Text that the IPSASB has already reviewed has been shaded.
3. The IPSASB's September decisions on the Project Overview paper could indicate a need for further changes to the CP's structure and content, which is noted in the CP's "Contents" page. In effect the draft CP in agenda item 8.3.1 represents a first step towards aligning the CP's content with the Project Overview's description of the CP.
4. The flow chart for selection of measurement bases for assets, which the IPSASB discussed at its June meeting, has been revised and included in Chapter 4 of the CP, with explanations for decision points provided. Chapter 4 emphasizes that the flow chart is only one part of the IPSASB's approach to reviewing measurement bases in extant IPSASs. The flow chart is not expected to be used in a rigid, inflexible way. Chapter 4 highlights other factors for consideration, which reflect IPSASB discussions to date and points highlighted in the Project Overview paper.
5. A flow chart for selection of measurement bases for liabilities has been included in Chapter 5 of the CP, with explanatory text. Chapter 5 has similar wording to that in Chapter 4 to the effect that the flow chart is only one part of the IPSASB's approach to reviewing measurement bases in extant IPSASs.

Decision required

The IPSASB is asked to:

- (a) Note the changes to the CP's structure;
- (b) Approve the text in Chapters 1-5 of the CP; and
- (c) Approve the two flow charts for subsequent measurement of:
 - (i) Assets (see Diagram 4.1); and
 - (ii) Liabilities (see Diagram 5.1).

Table 1 Summary of revisions since June IPSASB meeting

Chapter/Para	Revisions	Further comment:
Contents page	Note added–Revisions to given Project Overview	Revisions to CP's structure and contents page are likely, dependent on Project Overview recommendations decisions.
1.1-1.5	Minor revisions	June content still applies. Changes made to distinguish more clearly between CF guidance and application guidance.
1.6-1.8	No revision	June content unchanged. (Some differences compared to 8.2.1 paragraph 4, but the CP wording previously reviewed has been retained, since differences not of substance.
1.9-1.12 (1.13)	New paragraph (1.13)	June content unchanged. Paragraph 1.13 added to convey that the ED allows that fair value will apply in IPSAS. (Consistent with Project Overview paragraphs 7 & 8.)
2.1-2.8	No change until paragraph 2.8. Significant revisions to paragraph 2.8 and SMC removed.	June content unchanged up until paragraph 2.8. Staff recommends replacement paragraph 2.8 ¹⁰ , which is short and reflects the project overview approach. Chapter 6 to have main discussion of application guidance (and any related SMC(s)). Content to be developed after IPSASB's discussion of application guidance.
Chapter 3	No change to Chapter 3, <i>Borrowing Costs</i> .	June content still applies. This chapter went through IPSASB reviews in March and the March-June intermeeting period, so text has IPSASB support. A discussion of transaction costs needs to be included either as part of this chapter or as a separate chapter.
Chapter 4	New-Flow chart & explanation added	In June this chapter had placeholders linked to the IPSASB's discussion of the ED's text and the flow chart.
Chapter 5	New-Flow chart & explanation added	In June there was no content for this chapter. The IPSASB discussed examples of liability measurement in IPSAS.
Chapter 6	Placeholder description	Description from the Project Overview paper included here as a placeholder. Illustrative specific matters for comment included and (work-in-progress) table of guidance sources.
Appendix A	Placeholder only	No content for this chapter in June and for September. [This appendix will be populated once the IPSASB has developed recommendations on measurement bases in IPSASs]
Appendix B	Placeholder only	As for Appendix A.

¹⁰ The old text and related SMC are provided in appendix 2.

CONSULTATION PAPER AND EXPOSURE DRAFT: MEASUREMENT

Consultation Paper
January 2019
Comments due: May 15, 2019

Public Sector Measurement

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © January 2019 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page XX.

Executive Summary

The IPSASB initiated the project for which this Consultation Paper (CP) and accompanying Exposure Draft (ED) are intermediate outputs to address a number of issues:

- [include issues here]

More information about the problems addressed and an overview of the CP's content here.

The IPSASB has reached several preliminary views (PVs), and these are summarized below:

- PV 1.
- PV 2
- PV 3

More information.

REQUEST FOR COMMENTS

This Consultation Paper, *Public Sector Measurement*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by May 15 2019.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper, including all Preliminary Views and Specific Matters for Comment. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

Preliminary View—Chapter 3.1 (following paragraph 3.28)

All borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, the other option(s) that you support instead, and your reasons for supporting that other option(s).

Preliminary View X (following paragraph X.X)

Include here.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Preliminary View 3 (following paragraph X.X)

Include here.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

Specific Matter for Comment—Chapter 2 (following paragraph 2.8)

Are there any other measurement issues on which the IPSASB should provide application guidance?

If so, please identify the other measurement issues for which you consider that the IPSASB should provide application guidance in IPSAS, *Measurement*.

Specific Matter for Comment—Chapter X (following paragraph X.X)

Include here.

Specific Matter for Comment—Chapter X (following paragraph X.X)

Include here.

PUBLIC SECTOR MEASUREMENT

CONTENTS [FROM DECEMBER 2017]

[Further development of the Consultation Paper's structure and content is envisaged to reflect the IPSASB's discussion of the Project Overview paper.]

Page

Consultation Paper on Public Sector Measurement – Outline

Chapter 1 Introduction

- Background to the CP
- Measurement issues to address
 - Measurement and the Conceptual Framework
 - IFRS 13, Fair Value Measurement
 - Clarity of requirements in IPSASs
- Scope of coverage
- Structure of CP

Chapter 2 Conceptual Framework and Measurement [Align with 8.2.1 approach]

- Selection of measurement bases
- Factors to consider when selecting a measurement basis
- Application of measurement bases – issues arising in practice (see appendices A and B)

Chapter 3 Borrowing Costs and Transaction Costs [Add transaction costs coverage]

- Capitalization or expensing
- Treatment under the historical cost and revaluation models
- Treatment at initial and subsequent measurement

Chapter 4 Public sector measurement: assets [Align with 8.2.1 approach]

- Measurement on initial recognition
- Subsequent measurement
 - Historical cost
 - Revaluation model
 - Depreciation and amortization of assets
- Measurement on derecognition

Chapter 5 Public sector measurement: liabilities [Align with 8.2.1 approach]

- Measurement on initial recognition
- Subsequent measurement
 - Historical cost
 - Revaluation model
- Measurement on derecognition

[Chapter 6 Application Guidance for Asset and Liability Measurement]* [Align with 8.2.1 approach]

PUBLIC SECTOR MEASUREMENT

[Public sector measurement guidance for cross-cutting issues]

[Guidance on applying IFRS 13]

[Application guidance for particular public sector assets (as amendments to other IPSAS)]

Chapter 7 Disclosures for measurement [Delete to align with 8.2.1 approach]

Disclosures – based IFRS 13 but extended to address disclosures related to public sector measurement

Appendix A: Assets: Measurement Bases in each IPSAS

Appendix B: Liabilities: Measurement Bases in each IPSAS

Appendix C: Draft Exposure Draft *Public Sector Measurement*

* Placeholder for discussion of Application Guidance if required

Chapter 1, Introduction

Consultation Paper's Focus

- 1.1. In 2017 the IPSASB decided to develop IPSAS, *Measurement*, by issuing an exposure draft (ED) at the same time as an accompanying CP. The aim of this new approach is to allow the earlier issuance of a draft IPSAS, without consequential amendments, and get feedback from constituents. This CP should be read in conjunction with ED, *Measurement*, which is in Appendix C of this document.
- 1.2. This CP addresses three main areas. First, it discusses those issues where the IPSASB has reached a preliminary view, and considers that constituents' comments should be considered before integrating this into the ED. Where the IPSASB has reached a firm decision on how to address an issue, the relevant text is included in the ED and discussed instead in the ED's *Basis for Conclusions*.
- 1.3. Second, this CP provides an overview of the impact of the measurement requirements in ED, *Measurement*, on individual IPSASs. It does not provide either extensive detail or, as stated above, a list of consequential amendments to each individual IPSAS. The aim is to keep this CP–ED combination at a high enough level to provide a good basis for constituents' input. There are SMCs in this CP to solicit constituents' views on the ED's impact on measurement in individual IPSASs.
- 1.4. Third, this CP also discusses some general issues related to IPSAS measurement. For example, Chapter 6 considers the general issue of what measurement application guidance should be provided in ED, *Measurement*.

Structure of this Conceptual Paper

- 1.5. This CP discusses topics in the following order:
 - Chapter 2, the *Conceptual Framework's* guidance on measurement in the financial statements;
 - Chapter 3, treatment of transaction costs and borrowing costs;
 - Chapter 4, measurement of assets;
 - Chapter 5, measurement of liabilities; and
 - Chapter 6, application guidance for measurement of assets and liabilities.

Background to the Consultation Paper

- 1.6. The IPSASB completed *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) in 2014. The Conceptual Framework establishes the concepts that underpin financial reporting, which the IPSASB applies in developing IPSASs. The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or RPGs.
- 1.7. After completing the *Conceptual Framework*, the IPSASB recognized a need to address measurement requirements in IPSAS. In their responses to the IPSASB's 2014 Strategy and Work Plan consultation, constituents supported a Public Sector Measurement project.

- 1.8. The Public Sector Measurement project began in 2017, with the rationale that measurement requirements in IPSASs should be amended to better align them with the *Conceptual Framework's* measurement concepts. The project's objectives are to:
- (a) Issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure;
 - (b) Provide more detailed guidance on the implementation of replacement cost and cost of fulfillment, and the circumstances under which these measurement bases will be used; and
 - (c) Address transaction costs and borrowing costs.

Measurement Issues to Address

The Conceptual Framework and Measurement

- 1.9. When IPSASs were first developed they used measurement bases developed for private sector financial reporting and adapted them for the public sector. The IPSASB took into account public sector financial reporting needs and the special characteristics of the public sector in Chapter 7 of the *Conceptual Framework*, which addresses measurement in the financial statements. Financial statement measurement requirements in IPSAS now need to be better aligned with the measurement concepts in the *Conceptual Framework*. IPSAS measurement generally needs to be reviewed against the objective of measurement in the *Conceptual Framework*.
- 1.10. IPSAS measurement also takes into account the IPSASB's policies on alignment with International Financial Reporting Standards (IFRS) and reduction of differences between IPSAS and government finance statistics (GFS) reporting guidelines¹.

IFRS 13, Fair Value Measurement

- 1.11. One objective for this project is to consider the use of fair value in IPSAS. Fair value is a specified measurement basis in many IPSASs. The *Conceptual Framework* does not include fair value as a measurement basis, although its definition of "market value" is the same as the current IPSAS definition of "fair value," which is either an entry value or an exit value.
- 1.12. The International Accounting Standards Board (IASB) issued IFRS 13, *Fair Value Measurement*, in 2011. IFRS 13 defines fair value as an exit value. IFRS 13's approach to fair value measurement is different from the *Conceptual Framework's* approach to measurement bases. Fair value in IFRS 13 is also different from the current IPSAS definition of fair value. Because of these differences, the IPSASB decided to apply a rebuttable presumption that IPSAS references to fair value would need revision for better alignment with the *Conceptual Framework*, as it developed the draft Standard, accompanying this CP.
- 1.13. ED, *Measurement's* Basis for Conclusions provides the basis for the IPSASB's decision to include fair value—defined to be consistent with the IFRS 13 definition—as a measurement basis relevant to IPSAS. If review of individual IPSASs indicates that fair value is appropriate, then the ED's fair value definition and application guidance will apply. Chapter 6 discusses the IPSASB's approach to application guidance in the ED, including application guidance for fair value.

¹ These policies are set out in the IPSASB's *Process for Reviewing and Modifying IASB Documents* and *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

Chapter 2, Conceptual Framework and Measurement

- 2.1. As noted in Chapter 1, the Conceptual Framework discusses measurement in Chapter 7, *Measurement of Assets and Liabilities in the Financial Statements*. Chapter 7 establishes the objective of measurement, which addresses the selection of measurement bases.

Selection of Measurement Bases

- 2.2. The objective of measurement is:

To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

- 2.3. The Conceptual Framework identifies the measurement bases from which a selection should be made. Those are:

Measurement Bases for Assets

Historical cost;
Market value;
Replacement cost;
Net selling price; and
Value in use.

Measurement Bases for Liabilities

Historical cost;
Cost of fulfillment;
Market value;
Cost of release; and
Assumption price.

- 2.4. The Conceptual Framework provides guidance on selection, by discussing each measurement basis in terms of:

- (a) The information it provides about the cost of services, operating capacity and financial capacity (i.e. achievement of the objective of measurement); and
- (b) The extent to which the information provided is likely to meet the qualitative characteristics taking into account the constraints.

Factors to Consider when Selecting a Measurement Basis

- 2.5. The Conceptual Framework identifies factors for consideration when selecting a measurement basis. The factors identified include:

- (a) The nature of a measurement basis, and specifically whether it:
 - (i) Provides an entry or exit value;
 - (ii) Is observable in a market (or not); and
 - (iii) Is entity-specific (or not).
- (b) Factors related to the nature and circumstances of the asset/liability, for example, whether:

- (i) Assets were acquired (or liabilities incurred) in a non-exchange transaction.
 - (ii) Assets are held to provide services (non-cash-generating assets), to generate a commercial return (cash-generating assets), and/or for trading or sale.
 - (iii) Assets are specialized, where they have been created or adapted for a particular purpose. Their specialization may relate to their design, location, specification, size or any combination of these factors. These factors are specific to the service being provided, and as a consequence there may be no commercial use against which the value of the asset can be benchmarked.
 - (iv) There are restrictions on what the entity is able to do with the asset/liability.
- (c) Whether a market exists for similar assets and liabilities and the type of market, for example it is open, active and orderly.

Application of Measurement Bases—Issues Arising in Practice

2.6. Many different issues arise in practice when applying measurement bases. For example, when applying the historical cost measurement basis to assets, there are issues related to:

- (a) Costs to be capitalized on initial acquisition/ construction of an asset;
- (b) Lack of initial cost, with a resulting need to determine a deemed cost, when an asset has been acquired through a non-exchange transaction or is recognized on first time adoption of accruals accounting and information on acquisition cost is missing; and
- (c) Measurement of service potential for non-cash generating assets.

2.7. Where an entity applies a current value measurement basis to an asset or liability, application issues that arise include:

- (a) Frequency of revaluations;
- (b) Purpose of a valuation (for example, when valuing an asset, the purpose could be either to reflect the asset's existing use or its highest and best use);
- (c) Choice of valuation methodology (for example, if a liability will be valued using a discounted cash flow then there is a choice of different methodologies for this type of valuation);
- (d) Appropriate sources of information (inputs) for use in a revaluation (including, for example, sources to determine a discount rate or a market value for similar items);
- (e) Impact of restrictions on valuations (for example, on an asset's use and/or disposal or the entity's ability to transfer a liability).

How ED, *Measurement*, Relates to Other IPSAS

2.8. ED, *Measurement*, defines measurement bases and provides application guidance. However, it does not specify where the measurement bases should be used. The proposed approach is:

- (a) Individual IPSASs continue to address which measurement basis should be used and what disclosures should be made; and
- (b) IPSAS, *Measurement*, will:
 - (i) Define what each measurement basis means;
 - (ii) Provide application guidance on how to derive measurement bases; and

- (iii) Include a *Basis for Conclusions* that explains why the IPSASB reached its decisions.
- 2.9. Chapters 4 and 5 discuss the IPSASB's approach to reviewing the measurement bases in individual IPSASs to consider their appropriateness given (for example):
- (a) The Conceptual Framework's guidance on measurement; and
 - (b) The meaning of "fair value" in extant IPSASs, as indicating either an IFRS 13 (exit value) meaning or another measurement basis such as, for example, replacement cost for specialized public sector assets held for their on-going service potential.
- 2.10. Chapter 6 discusses the IPSASB's approach to application guidance for measurement bases and identifies related issues, on which constituents' views are requested.

Chapter 3, Borrowing Costs

Capitalization or Expensing Borrowing Costs

- 3.1. IPSAS 5, *Borrowing Costs*, defines borrowing costs as interest and other expenses incurred by an entity in connection with the borrowing of funds. It generally requires the immediate expensing of borrowing costs. However, it permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- 3.2. Borrowing costs may be attributable to acquisition of the asset, but are not part of the asset's purchase price or, in the case of construction or production, the prices of material and labor. They are not a characteristic of the asset being valued. They are entity-specific costs, which depend on the entity's financing choices. Capitalization of borrowing costs results in similar assets being measured at different amounts, because entities have different financing profiles and different ways to finance their asset acquisition and/or construction.
- 3.3. The question of how to account for borrowing costs also applies to subsequent measurement, when an entity revalues assets applying a cost-based estimate such as replacement cost. IPSAS application guidance does not address the issue of whether, and if so, how, borrowing costs should be incorporated into the calculation of a cost-based current value. If borrowing costs must be expensed for measurement on initial recognition then it follows that no estimate of borrowing costs would be included in a cost-based revaluation. Alternatively, if borrowing costs are capitalized then application guidance on changes in actual borrowing costs, compared to those initially capitalized and/or derivation of an estimate of borrowing costs would be needed.

Previous IPSASB Considerations: Project 2007–2009

- 3.4. The IPSASB's previous project on the treatment of borrowing costs, from 2007 to 2009, was prompted by the International Accounting Standards Board (IASB)'s decision to revise the equivalent International Financial Reporting Standard (IFRS)² by removing the option to expense borrowing costs and instead require capitalization.
- 3.5. The IPSASB decided that:
 - (a) There are public sector specific reasons to diverge from IFRS in this case, one of which is the common use of centralized borrowing with many entities prohibited from borrowing on their own account;
 - (b) Expensing borrowing costs is generally the most appropriate accounting policy; and
 - (c) Capitalization of borrowing costs should be restricted to cases where there is a direct link between the debt instrument and the qualifying asset.
- 3.6. However, after considering responses to an exposure draft³, the IPSASB concluded that there was no clear mandate from respondents to finalize the ED and no clear indication as to the

² IAS 23, *Borrowing Costs*. The IASB decided to require capitalization of borrowing costs in order to converge with the Financial Accounting Standards Board's treatment of borrowing costs. For small and medium sized entities IFRS requires the simpler and less burdensome accounting treatment of expensing these borrowing costs.

³ Exposure draft (ED) 35, *Borrowing Costs*, was issued in September 2008, with comments requested by 7 January, 2009.

direction that the IPSASB should take⁴ and decided that the borrowing cost issue should be deferred until the Conceptual Framework had been completed.

Public Sector Borrowing

- 3.7. The IPSASB considers that there are significant differences between borrowing in the public and private sectors. Borrowing in the public sector is often centralized and borrowing requirements are determined for the economic entity as a whole. For example, a national government often borrows on behalf of all of its subsidiary entities, including government departments, hospitals, schools and entities responsible for construction of buildings and infrastructure. While centralized borrowing also occurs in the private sector, the public sector approach to centralized borrowing, which may be for investing, financing or operating activities, is different.
- 3.8. A feature of fiscal management in the public sector is that governments may budget for deficits, occasionally for extended periods of time, and those deficits are financed by borrowing. Governments seek to control their aggregate level of borrowing in the context of political and economic factors, such as decisions on the appropriate levels of taxation, or the timing of cash inflows in general. In many jurisdictions outlays on qualifying assets are a relatively minor part of the government's annual outlays, the bulk of which are consumed by expenses, such as the payment of social benefits to individuals and households. Funding allocated to specific programs and entities may be derived from a variety of sources, and consequently it is often difficult to determine whether the acquisition/construction/production of an asset has been financed through external borrowing or from other sources. Thus, there is often no meaningful way to attribute borrowing costs to qualifying assets.
- 3.9. However, there are situations where public sector entities borrow specifically to finance capital projects. For example, local governments such as city and district councils may finance their construction of infrastructure (roads, bridges, etc.) through specific external borrowing. In these situations public sector entities are able to attribute borrowing costs to a qualifying asset. Similarly an international development bank such as the World Bank or the European Investment Bank may finance part or all of the construction of a particular infrastructure project undertaken by a public sector entity. Public sector entities responsible for infrastructure investments may have a relatively high proportion of their borrowing costs attributable to qualifying assets.

Options for Treatment of Borrowing Costs

- 3.10. The IPSASB has identified four options for treatment of borrowing costs for a qualifying asset during the period between the start of acquisition/construction/production and active use, as shown in Table 1 below.

⁴ Minutes of the IPSASB's February 2009 meeting.

Table 1: Treatment of Borrowing Costs: Options

Borrowing costs—acquisition, construction or production of qualifying asset:	Option 1	Option 2	Option 3	Option 4
Directly attributable ► and specifically incurred	Expense or capitalize	Must capitalize	Expense or capitalize	Expense
Directly attributable ► but not specifically incurred	Expense or capitalize	Must capitalize	Expense	Expense
Borrowing costs—other	Expense	Expense	Expense	Expense

- 3.11. Option 1 is the status quo, and would mean no change to IPSAS 5. This option allows for an entity to choose either to capitalize or expense borrowing costs that are directly attributable to a qualifying asset during its acquisition, construction or production. Direct attribution could involve, for example, a formula to estimate the fraction of borrowing that logically applies to asset construction activities, as opposed to other operations. Option 1 is not converged with IFRS nor is it aligned with GFS reporting guidelines, which require expensing of all borrowing costs.
- 3.12. Option 2 requires capitalization and removes the choice to expense. Capitalization applies only during acquisition, construction or production of the qualifying asset, and the borrowings costs must be directly attributable. This option is converged with the IFRS accounting treatment in IAS 23. On the one hand it provides better comparability, because the accounting policy choice has been removed and all entities will capitalize borrowing costs when the same circumstances apply. On the other hand, asset values will be affected by an entity's financing choices, which is likely to reduce comparability. Furthermore, this option is not suitable for the majority of transactions, because of the difficulty in distinguishing the financing portion between external borrowing and other sources of finance. This option is not aligned with GFS reporting guidelines.
- 3.13. Option 3 requires that the accounting policy choice for capitalization only apply to those borrowing costs that are *both* directly attributable to, *and specifically incurred* for, acquisition, construction or production of a qualifying asset. A choice remains, although the extent of choice is narrower than is the case under Option 1. The IPSASB developed this option during its 2007-09 project, in order to address concerns that the focus on borrowing costs that are "directly attributable" allows for too much preparer discretion. By requiring a stronger, clearer relationship between the asset and the borrowing costs that are capitalized, preparer discretion is reduced. Option 3 is not converged with IFRS nor is it aligned with GFS reporting guidelines. However Option 3 has the benefit of providing scope to expense borrowing costs when, for example, a national government's approach to financing means that borrowing costs are not specifically incurred for the qualifying asset, and capitalize borrowing costs when an entity borrows specifically to finance a qualifying asset, as may occur in local government.
- 3.14. Option 4 requires that all borrowing costs, without exception, be expensed. This option is aligned with GFS reporting guidelines. This option also provides greater comparability than other options, because there is no accounting policy choice and entities' financing choices do not impact on asset values.

Discussion of the Four Options

- 3.15. This discussion focuses primarily on the Conceptual Framework's coverage of measurement and the IPSASB's policies as they apply to this issue. The Conceptual Framework's objective of measurement addresses the selection of measurement bases rather than their derivation. However the Conceptual Framework's concerns that measurement should generate information that is useful for assessments of operational capacity, cost of services and financial capacity can be applied to the derivation of measurement bases. In addition, the Conceptual Framework's discussion of the extent to which each measurement basis is likely to provide information that achieves the qualitative characteristics, while taking into account the constraints, suggests that different options for measurement basis derivation should consider the extent to which the resulting information will achieve the qualitative characteristics, taking into account the constraints.
- 3.16. The IPSASB has policies to pursue IFRS alignment and reduce unnecessary differences between IPSAS and GFS reporting guidelines, to the extent appropriate. The descriptions of the four options explain that Option 2 is the only option converged with IFRS, while Option 4 is the only option aligned with GFS reporting guidelines.

Objective of Measurement

- 3.17. The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes⁵.
- 3.18. Capitalization of borrowing costs increases the amount recognized as an asset. Yet there appears to be no relationship between an asset's future economic benefits and/or service potential and the extent of borrowing costs incurred. Therefore, capitalization of borrowing costs appears to incorrectly convey to users of the financial statements that assets financed through borrowing have more service potential or ability to generate economic benefits compared to similar assets held by an entity that does not use debt to finance its asset acquisitions. Capitalization has the result that users of the financial statements assess an entity's operational capacity and financial capacity as higher than would be the case if no capitalization occurred. With respect to the cost of services, capitalization of borrowing costs defers costs to future periods.
- 3.19. An argument in favor of capitalization of borrowing costs applies the principle that historical cost includes all costs which are directly attributable to getting an asset ready for its intended use, and this includes borrowing costs where they meet this criterion. Historical cost is an entity specific measure and normally will not generate asset measures that are comparable between entities. Furthermore capitalization of borrowing costs ensures that expenses are allocated to the reporting period in which they occur, i.e. expensed as the economic benefits and/or service potential of the qualifying asset is consumed. The capitalization accounting policy will, applying this reasoning, better support assessment of the cost of services.
- 3.20. If all borrowing costs are expensed then the interest cost item in the entity's statement of financial performance allows users to see a government's total borrowing cost, with no amount "hidden" in assets. Those users of the financial statements that consider total interest costs to be an important indicator of financial performance will likely prefer Option 4, because it provides them with useful information to hold the entity to account and for decision-making purposes.

⁵ Paragraph 7.2 of the Conceptual Framework.

Alternatively, Option 3's approach to capitalizing borrowing costs allows an entity to link costs to the asset for which borrowing was incurred, if the entity applies the accounting policy choice to capitalize borrowing costs that are directly attributable and specifically incurred with respect to qualifying assets, and some argue that this also provides useful information for accountability and decision making. If the amount of interest that has been capitalized is disclosed in the notes to the financial statements then users are still able to calculate the total interest costs for the period.

Public Sector Borrowing and Capitalization of Borrowing Costs

- 3.21. The reasons why the public sector borrows, outlined in paragraphs 3.7-3.9 above, show that for national governments and their subsidiary entities there is usually little linkage between entities' borrowings and the acquisition, construction or production of qualifying assets. For example, a government that has a policy of maintaining CU100 billion in bonds in the market, while not actually needing the cash, will find that, if it were required to capitalize borrowing costs, it would capitalize interest for any qualifying assets acquired, constructed or produced in any years in which bonds are outstanding. While it may be feasible to allocate these borrowings to qualifying assets, the IPSASB is of the view that doing so is unlikely to provide relevant and representationally faithful information or support achievement of financial reporting objectives, by enhancing either accountability or decision-making.
- 3.22. In the public sector, controlling entities may have a large number of controlled entities. Many of these controlled entities are responsible for acquiring, constructing or producing qualifying assets. Although there will be a general policy framework, many controlled entities may have their own financial management systems, reflecting their own financial reporting needs. Funding for such controlled entities may be by means of appropriation from a central fund without regard to whether such appropriations are financed from taxes, borrowings or other sources. Any accounting system used to track directly attributable borrowing costs and their application to qualifying assets is likely to be complex and resource intensive. The IPSASB is of the view that the complexity would mean that the costs incurred in capitalizing borrowing costs would be considerable and likely to exceed the related benefits.
- 3.23. Option 2, the capitalization of borrowing costs option, is converged with IFRS requirements and therefore avoids the potential problem of different accounting policies within a group of entities. Where one or more controlled entities apply IFRS while the controlling entity applies an IPSAS-based allowance to expense borrowing costs, the controlling entity will need to adjust for this difference in its consolidated financial statements. This introduces preparation costs which would be avoided if the IPSAS treatment for borrowing costs is fully converged with IFRS.
- 3.24. As noted in the introduction to this chapter, there are cases where public sector entities borrow specifically to finance the acquisition, construction or production of a qualifying asset, for example, where a municipality issues bonds specifically to finance an infrastructure project. In such cases capitalizing borrowing costs may be appropriate because the costs to capitalize are relatively straightforward to identify. Then the cost-benefit argument shifts towards entities being permitted to capitalize borrowing costs. This is an argument in favor of Options 1 and 3, both of which allow entities to capitalize borrowing costs where appropriate, while also allowing for non-capitalization when inappropriate, for example when entities are within a national government with centralized borrowing.
- 3.25. However, even in this situation, questions as to the relevance of the resulting information argue in favor of allowing capitalization of borrowing costs rather than making it a requirement. The further condition in Option 3, whereby public sector entities only have the option to capitalize

where borrowing is incurred specifically to finance an asset's acquisition, construction or production, reduces the costs involved in tracking and computing those borrowing costs that should be capitalized, while increasing the representational faithfulness of the resulting information. This argues in favor of Option 3 rather than Option 1. Arguably Option 4, where all borrowing costs are expensed, provides even more support for achievement of the qualitative characteristics, because its clear-cut approach best supports both understandability and representational faithfulness.

Preliminary View—Expense All Borrowing Costs

- 3.26. In considering the arguments for and against the four options the IPSASB noted that allowing entities to choose whether to expense or capitalize borrowing costs reduces comparability between entities and within the same entity. Furthermore, where borrowing costs are difficult to attribute, the representational faithfulness of the resulting information may be reduced. If borrowings are limited to funds borrowed specifically for the purpose of acquiring, constructing or producing a particular qualifying asset (Option 3), then this would reduce complexity, with benefits in terms of achievement of the qualitative characteristics and reduced costs. However, comparability issues would remain, because they would arise both when an option in IPSAS is permitted and where entities' different financing profiles impact on the reported value of assets.
- 3.27. The IPSASB considers that neither requiring public sector entities to capitalize nor providing an option to capitalize borrowing costs support achievement of the qualitative characteristics. In particular, capitalizing borrowing costs appears likely to diminish the comparability of information in the financial statements. Given the extent to which judgement is needed for Options 1 to 3, the IPSASB does not consider that these three options would contribute significantly towards achievement of the objectives of financial reporting. The IPSASB considers that, having regard to the constraints, the option of expensing borrowing costs, Option 4, will provide more useful information for users' assessments of entities' operational capacity, financial capacity and cost of services. Option 4 will also align borrowing cost measurement under IPSAS with GFS reporting guidelines.
- 3.28. Therefore, the IPSASB's preliminary view is that all borrowing costs should be expensed.

Preliminary View—Chapter 3.1

All borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

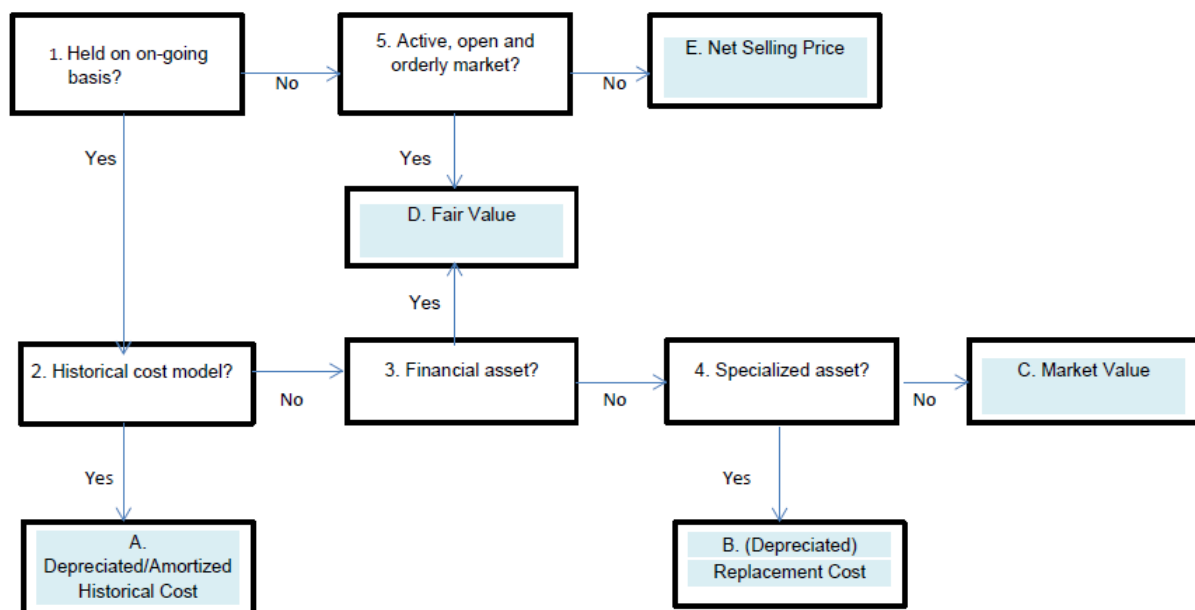
Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, the other option that you support instead, and your reasons for supporting that other option.

Chapter 4, Public Sector Measurement: Assets

- 4.1. This chapter discusses the IPSASB's approach to reviewing measurement bases in extant IPSASs to identify whether they should be amended to ensure that the measurement of assets:
- (a) Works well for public sector specific assets;
 - (b) Generates useful information that achieves the Conceptual Framework's measurement objective and qualitative characteristics while taking account of the constraints on information in general purpose financial reports;
 - (c) Improves consistency across IPSAS to improve the comparability of financial statements;
 - (d) Brings IFRS 13, *Fair Value Measurement*, into IPSASB literature to the extent that an exit value is relevant to certain transactions and balances; and
 - (e) Reduces unnecessary differences between IPSAS and Government Finance Statistics (GFS) reporting guidelines.
- 4.2. During development and revision of individual IPSASs the IPSASB will consider a mixture of different factors in order to support the different review objectives above. The IPSASB believes it is important that global standard setters use the same term with the same meaning. The IPSAS definition of "fair value" pre-dates the IFRS 13 definition. The IPSASB's work since developing the Conceptual Framework has demonstrated that "fair value" as defined in IFRS 13 is appropriate for many public sector transactions (particularly financial instruments), but there are other transactions where this is not the case. The IPSASB will therefore evaluate all references to 'fair value' in the literature and determine whether the IFRS 13-based definition is appropriate or whether an alternative measurement basis should be adopted.
- 4.3. The flow chart on the following page (Diagram 4.1) aims to provide a useful tool to support the IPSASB's review approach. It reflects key aspects of the Conceptual Framework's discussion of measurement bases, while also indicating situations in which fair value could be an appropriate measurement basis for assets.
- 4.4. This flow chart is not expected to be used in a rigid, inflexible way and any 'answer' that the flow chart suggests in relation to a measurement basis for a particular type of asset or liability will be tested against the considerations outlined in paragraph 4.1 above. For example, the IPSASB's past considerations when developing IPSASs, which identified areas where public sector specific issues existed or those where alignment with IFRS was deemed appropriate, remain relevant. The IPSASB's review approach includes scope to retain measurement approaches in extant IPSASs, where these meet the needs of users of GPFRs.

Diagram 4.1—Subsequent Measurement of Assets (Financial and Non-Financial)



Explanation of Flow Chart Decision Points

4.6. Further explanations of the flow chart's decision points are provide below:

Held on on-going basis: Key attributes for assets that are “held on an on-gong basis” are that they are not held with a view to sell or otherwise dispose of them. For physical assets the intention is use in the provision of services.

Historical cost model: The Conceptual Framework acknowledges both historical cost and current value. The extant allowances and/or requirements in IPSASs apply. The choice of accounting policy is likely to be made by regulators or in legislation. If not restricted by regulation or legislation then the entity establishes its accounting policy where an IPSAS provides a choice between the historical cost model and a current value model.

Active, open and orderly market⁶: In an open, active and orderly market, there are no barriers that prevent an entity from transacting, and there is sufficient frequency and volume of transactions to provide price information. Such markets are orderly (i.e. are run in a reliable, secure, accurate and efficient manner) with many well-informed buyers and sellers acting without compulsion, so there is assurance of “fairness” in determining current prices—including that prices do not represent distress sales. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies and securities where prices are publicly available. (By contrast, markets for assets that are unique and rarely traded are not open, active and orderly; any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. In such circumstances it is necessary to use an estimation

⁶ See paragraphs 7.28-7.29 of the Conceptual Framework.

technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions.)

Specialized asset. Specialized assets are more heterogeneous than homogenous, such that there are insufficient transactions to determine value by comparison with previous sales. Valuations of specialized buildings apply the assumption that the existing use of the building will continue. For example, a school laboratory is an example of a specialized asset, while an office building is not. Some buildings might have a conventional basic design that is superficially similar to other buildings that are regularly bought and sold in the market, but on closer inspection have specialised features designed to meet the requirements of the actual occupier. For example, a purpose-built embassy has the same general function as an office block but is likely to have additional security features or high quality finishes that an office block would not normally require. This type of building will often cost considerably more to develop and build than a normal office building, but provide extra service potential (in the form of, for example, security for its occupants) which cannot be replicated through the purchase of a normal office building.

*Financial asset*⁷: A financial asset is defined as in IPSAS 28, *Financial Instruments: Presentation*, that is “any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right to (i) receive cash or another financial asset from another entity; or (ii) exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or (d) a contract that will or may be settled in the entity’s own equity instruments and is: (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16 (of IPSAS 28), instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18 (of IPSAS 28), or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments.”

Specific Matters for Comment—Chapter 4.1

Do you agree that Diagram 4.1—Subsequent Measurement of Assets (Financial and Non-Financial) is a useful tool to support the IPSASB’s review of measurement bases in extant IPSASs and identification of appropriate measurement bases for use in future IPSASs?

If not, please provide your views on how to improve the flow chart so that it will be useful.

⁷ Definition in IPSAS 28, paragraph 9.

Chapter 5, Public Sector Measurement: Liabilities

- 5.1. This chapter discusses the IPSASB's approach to reviewing measurement bases in extant IPSASs to identify whether there should be amendments to ensure that the measurement of liabilities:
- (a) Works well for public sector specific liabilities;
 - (b) Generates useful information that achieves the Conceptual Framework's measurement objective and qualitative characteristics while taking account of the constraints on information in general purpose financial reports;
 - (c) Improves consistency across IPSAS to improve the comparability of financial statements;
 - (d) Brings IFRS 13, *Fair Value Measurement*, into IPSASB literature to the extent that an exit value is relevant to certain transactions and balances; and
 - (e) Reduces unnecessary differences between IPSAS and Government Finance Statistics (GFS) reporting guidelines.
- 5.2. The flow chart on the following page (Diagram 5.1) aims to provide a useful tool to support the IPSASB's review approach and, as with the assets flow chart, will be used only as an indication of where an existing measurement basis might need to be changed in order to meet the objectives set out in paragraph 5.1. It reflects key aspects of the Conceptual Framework's discussion of measurement bases, while also indicating situations in which fair value could be an appropriate measurement basis for liabilities.

The Conceptual Framework's Discussion of Measurement Bases

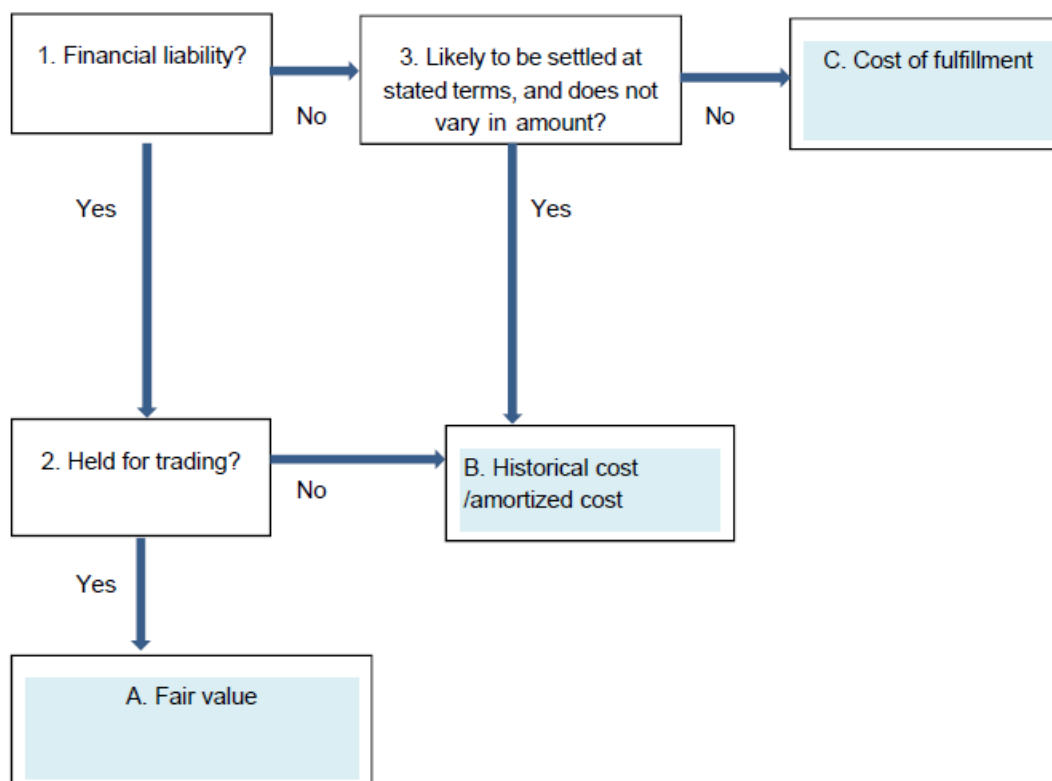
- 5.3. The Conceptual Framework discusses five measurement bases. It acknowledges that there are only limited circumstances in which cost of release and assumption prices could apply⁸. These two measurement bases do not appear, therefore, in the flowchart, which has been developed to cover situations where cost of fulfillment and historical cost are likely to be relevant.

The flow chart additionally includes fair value (defined consistently with IFRS 13), given its relevance to the subsequent measurement of financial liabilities. Fair value is a type of market value, and the Conceptual Framework's discussion of when market value could be appropriate clearly applies to financial liabilities. Examples of non-financial liabilities for which market value would apply were difficult to identify. The flow chart shows that either historical cost or cost of fulfillment are generally more relevant to non-financial liabilities.

⁸ See paragraphs BC7.42 and BC7.43 of Chapter 7's Basis for Conclusions.

Subsequent Measurement for Liabilities

- 5.4. Diagram 5.1 considers subsequent measurement for non-current liabilities and current liabilities for which significant value fluctuations may occur in short time spans, for example derivatives.

DRAFT FLOW CHART—SUBSEQUENT MEASUREMENT OF LIABILITIES**Specific Matters for Comment—Chapter 5.1**

Do you agree that Diagram 5.1—Subsequent Measurement of Liabilities (Financial and Non-Financial) is a useful tool to support the IPSASB's review of measurement bases in extant IPSAS and identification of appropriate measurement bases for use in future IPSASs?

If not, please provide your views on how to improve the flow chart so that it will be useful.

Chapter 6, Application Guidance for Measurement Bases

6.1. This chapter discusses the IPSASB's approach to developing application guidance in line with the principle that individual IPSASs will say which measurement basis should be used and what disclosures should be made and that, i.e. that IPSAS, *Measurement*, will:

- (a) Define what each measurement basis means, with explanatory material in the core text; and
- (b) Provide Application Guidance on how to derive the different measurement bases.

6.2. The approach is illustrated in the accompanying Exposure Draft, which contains some application guidance for the following measurement bases:

- (a) Cost of Fulfillment. This material is based on relevant material from IPSAS 19;
- (b) Fair Value. The material combines IFRS 13, *Fair Value Measurement*, to the extent that it is application guidance (other IFRS 13 material is included in the main ED *Measurement*, (for example, the definitions) and material taken from IPSAS 16, *Investment Property*;
- (c) Historical Cost. Material on cost on initial and subsequent measurement when using the cost model is derived from IPSASs 16, 17 (*Property, Plant, and Equipment*), and 31 (*Intangible Assets*);
- (d) Market Value. Application guidance on market value is based on the guidance on fair value (which is not fair value within the meaning of ED, *Measurement*) in IPSASs 17 and 31; and
- (e) Replacement Cost. This material is taken from IPSASs 17 and 31.

The remaining paragraphs of this chapter explain the rationale behind the inclusion of this material and the next steps, and then explain the impact on individual IPSASs of including measurement application guidance in [draft] IPSAS, *Measurement*.

Rationale and Next Steps

6.3. Feedback from stakeholders about application guidance in IPSASs generally focuses on guidance related to the measurement of assets and, in particular, to specialized assets. There is also, of course, the need to provide guidance on the use of fair value in those circumstances where it is an appropriate measurement basis for use in the public sector. The IPSAS decided, therefore, to illustrate its approach to providing guidance by:

- (a) Placing generic guidance on the measurement bases in ED, *Measurement*, and removing it from individual IPSASs;
- (b) Refining that guidance—for example, by improving the drafting or by eliminating inconsistencies arising from the different source material; and
- (c) Identifying gaps where more guidance is required: an obvious example, based on the material in the ED (Appendix G) and on stakeholders' feedback is how to derive an optimized depreciated replacement cost.

- 6.4. The next steps, following this consultation, will be review all other IPSASs to determine which material should be moved to the new IPSAS and to refine the existing guidance as outlined in 6.3(b) above and then to supplement that guidance with new material where relevant and appropriate. Table 1 summarizes the measurement bases for which application guidance will be included in a future IPSAS, together with a note of the source and a brief description of the coverage of the guidance.

Impact on Individual IPSASs

- 6.5. Using the illustrative material in the ED, the impact on the individual IPSASs will be to delete:

- (a) IPSAS 16: paragraphs 26 to 64;
- (b) IPSAS 17: paragraphs 26 to 41, 43 to 58 and the Implementation Guidance;
- (c) IPSAS 19: paragraphs 44 to 62, and 93 to 96; and
- (d) IPSAS 31: paragraphs 41 to 43, 63 to 65, 73 to 86 and the Application Guidance.

IPSAS 41 will also need to be reviewed to ensure that material in ED, *Measurement*, does not duplicate material in IPSAS 41. Other IPSASs from which material is moved to ED, *Measurement*, will be similarly affected.

- 6.6. In addition, it [will][may] be necessary to amend individual IPSASs to incorporate text to say which measurement basis should be used and also to review individual IPSASs to ensure that sufficient text is included on disclosure requirements to reflect any changes that might be recommended as a result of developing additional application guidance.

Specific Matters for Comment—Chapter 6.1

Do you agree that the application guidance planned for inclusion on the following measurement bases [to be determined] is sufficient for those measurement bases?

If not, please indicate what other application guidance should be provided.

Specific Matters for Comment—Chapter 6.2

Are there any other measurement bases for which you consider that application guidance is needed?

If yes, please indicate what other measurement bases need application guidance and what type of application guidance is needed.

TABLE 1: SOURCES FOR APPLICATION GUIDANCE ON MEASUREMENT BASES [WORK IN PROGRESS]

Measurement basis	Conceptual Framework ⁹	CF-CP, Measurement	IPSASs	Other
Assets				
Historical cost	7.13 - 7.15	[Review CP for relevance.]	IPSAS 17, IPSAS 31 ¹⁰	[Review guidance database]
Market value	7.24 – 7.29	(Analysis depends on need.)	(Analysis depends on need.)	(Analysis depends on need.)
Fair value (Market value-exit)	Not applicable	Not applicable	Not applicable	IFRS 13
Replacement cost	7.37 – 7.42	[Review CP for relevance.]	IPSAS 17, IPSAS 31	[Review guidance database]
Value-in-use	7.58 (Definition only)	[Review CP for relevance.]	Review impairment IPSASs	[Review guidance database]
Net selling price	7.49 – 7.50	[Review CP for relevance.]	[Review CP for relevance.]	[Review guidance database]
Liabilities				
Historical cost	7.70-7.72,	[Review CP for relevance.]	(Analysis depends on need.)	(Analysis depends on need.)
Market value	7.80 (Definition only)	(Analysis depends on need.)	(Analysis depends on need.)	(Analysis depends on need.)
Fair value (Market value-exit)	Not applicable	Not applicable	Not applicable	IFRS 13
Cost of fulfillment	Table 2, page 4; main section 7.74 – 7.79, BC 7.43	5.23, table page 32, 5.28 – 5.30, main section: 5.31-5.37, A3 (entity's own credit risk)	IPSAS 19?	[Review guidance database]
Cost of release	7.82-7.84, & BC7.43	(Analysis depends on need.)	(Analysis depends on need.)	(Analysis depends on need.)
Assumption price	7.87-7.93, & BC7.42	(Analysis depends on need.)	(Analysis depends on need.)	(Analysis depends on need.)

⁹ Chapter 7 of the Conceptual Framework provides a definition and usually some description of each of the measurement bases that it identifies. These paragraph references cover the definition and description, and exclude the subsequent discussion of the extent to which each measurement basis achieves the measurement objectives, etc.

¹⁰ See review documents for each IPSAS.

Content before Appendix C:

[Note: *The following CP chapter and appendices will come before Appendix C, which begins on the following page, once the IPSASB has discussed these issues and the resulting text has been developed:*

Appendix A, Assets: Measurement Bases in each IPSAS

Appendix B, Liabilities: Measurement Bases in each IPSAS]

Exposure Draft XX
January 2019
Comments due: May 15, 2019

*Proposed International Public Sector Accounting
Standard®*

Measurement

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © January 2019 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page XX.

REQUEST FOR COMMENTS

This Exposure Draft, *Public Sector Measurement*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 15, 2019.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose requirements for the measurement of assets and liabilities.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Preliminary Views and Specific Matters for Comment requested for the Exposure Draft are provided below.

Preliminary View 1:

[Include PV 1 here]

Do you agree with PV1?

If not, what changes would you make?

Preliminary View 2:

Do you agree with PV2?

If not, what changes would you make?

(etc.)

Specific Matter for Comment 1:

Do you agree with the [include question here]?

If not, what changes would you make?

Specific Matter for Comment 2:

Do you agree with the [include question here] included in this Exposure Draft?

If not, what changes would you make?

EXPOSURE DRAFT XX, MEASUREMENT

CONTENTS

	Paragraph
Request for comments	
Objective	1
Scope	2
Definitions	3
Measurement	5
Effective Date	9
APPLICATION GUIDANCE APPENDICES	
A Assumption price–application guidance	
B Cost of fulfilment–application guidance	
C Fair value–application guidance	
D Historical cost–application guidance	
E Market value–application guidance	
F Net selling price–application guidance	
G Replacement cost–application guidance	
BASIS FOR CONCLUSIONS	

Objective

1. The objective of this [draft] standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity, and financial capacity and how to identify approaches under those measurement bases to be applied through individual IPSASs to achieve the objectives of financial reporting.

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in measuring items.
3. Except as specified in paragraphs X-X, this IPSAS applies when another IPSAS requires or permits:
 - (a) One or more of the measurement bases defined herein or disclosures about one or more of these measurement bases; and
 - (b) Measurements that are based on one or more of the measurement bases (e.g. market value less costs to sell) or disclosures about those measurements.
4. [Include exceptions here, once identified.]
5. The measurement application guidance described in this IPSAS applies to both initial and subsequent measurement.

Definitions

6. The following terms are used in this [draft] Standard with the meanings specified:

Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

Cost approach is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor.

Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

Exit price is the price received to sell an asset or paid to transfer a liability.

Expected cash flow is the probability-weighted average (i.e. mean of the distribution) of possible future cash flows.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Highest and best use is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g. an operation) within which the asset would be used.

Historical cost for an asset is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

Historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

Income approach is valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Inputs are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

- (a) The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and
- (b) The risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as an operation.

Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- (a) They are independent of each other, i.e. they are not related parties as defined in IPSAS 20, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
- (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.
- (c) They are able to enter into a transaction for the asset or liability.
- (d) They are willing to enter into a transaction for the asset or liability, i.e. they are motivated but not forced or otherwise compelled to do so.

Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Most advantageous market is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Net selling price is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

Non-performance risk is the risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g. a forced liquidation or distress sale).

Principal market is the market with the greatest volume and level of activity for the asset or liability.

Replacement cost is the optimized depreciated replacement cost of an asset.

Risk premium is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.

Transaction costs are the costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:

- (a) They result directly from and are essential to that transaction.
- (b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.

Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.

Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Value in use is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

[Explanatory text about the measurement bases]

Assumption price

7.

Cost of fulfilment

8.

Fair value

9. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
10. When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.
11. The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this IPSAS shall be applied to an entity's own equity instruments measured at fair value.

Historical cost

12.

Market value

13.

Net selling price

14.

Replacement cost

15.

Measurement

16. **When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below an entity shall apply the application guidance in the relevant appendix to derive each measurement basis:**
 - (a) Assumption price;
 - (b) Cost of fulfilment;

- (c) Fair value;
- (d) Historical cost;
- (e) Market value;
- (f) Net selling price; and
- (g) Replacement cost.

Effective Date

17. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after MMMM DD, YY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MMMM DD, YY, it shall disclose that fact.**
18. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Application Guidance Appendices

*These application guidance appendices are an integral part of [draft] IPSAS [X] (ED XX)*¹

Contents	Paragraphs
Appendix A: Assumption price–application guidance	AG1 - AGX
Appendix B: Cost of fulfilment–application guidance	AGX - AGX
Appendix C: Fair value–application guidance	AGX - AGX
Appendix D: Historical cost–application guidance	AGX - AGX
Appendix E: Market value–application guidance	AGX - AGX
Appendix F: Net selling price–application guidance	AGX - AGX
Appendix G: Replacement cost–application guidance	AGX - AGX

¹ These appendices are expected to provide application guidance on, inter alia, the topics identified in paragraph 10(b) of agenda paper 8.2.1.

Appendix A: Assumption price—application guidance

This Appendix is an integral part of IPSAS XX, Measurement.

[Guidance on assumption price will be included here.]

Assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

Appendix B: Cost of fulfillment–application guidance

This Appendix is an integral part of IPSAS XX, Measurement.

[Guidance on cost of fulfillment will be included here.]

The paragraphs below are taken from IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. They provide an initial indication of what type of text could be included here. The track changes show how the Standard's wording was amended for inclusion in this appendix. Text from other IPSASs, when included in IPSAS, *Measurement*, will be removed from the originating Standard.]

Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Best Estimate

44. The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.
45. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.
46. When measuring the cost of fulfillment, ~~The~~ estimates of outcome and financial effect are determined by the judgment of the entity's management ~~of the entity~~, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence-data provided by events after the reporting date.

Example

A government medical laboratory provides diagnostic ultrasound scanners to both government-owned and privately owned medical centers and hospitals on a full-cost recovery basis. The equipment is provided with a warranty under which the medical centers and hospitals are covered for the cost of repairs of any defects that become apparent within the first six months after purchase. If minor defects were detected in all equipment provided, repair costs of 1 million currency units would result. If major defects were detected in all equipment provided, repair costs of 4 million currency units would result. The laboratory's past experience and future expectations indicate that, for the coming year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects and 5% of the equipment will have major defects. In accordance with paragraph 32, the laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

$$(75\% \text{ of nil}) + (20\% \text{ of } 1\text{m}) + (5\% \text{ of } 4\text{m}) = 400,000$$

47. Uncertainties surrounding the amount to be recognized as a ~~provision-liability~~ are dealt with by various means according to the circumstances. Where the ~~provision-liability~~ being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is "expected value." The ~~provision-liability~~ will therefore be different, depending on whether the probability of a loss of a given amount is, for example, 60% or 90%. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the midpoint of the range is used.
48. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate of the cost of fulfillment will be a higher or lower amount. For example, if a government has to rectify a serious fault in a defense vessel that it has constructed for another government, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 100,000 currency units, but a ~~provision-liability~~ for a larger amount is made if there is a significant chance that further attempts will be necessary.
49. The liability is measured before tax or tax equivalents. Guidance on dealing with the tax consequences of a provision, and changes in it, is found in IAS 12.

Risks and Uncertainties

50. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.
51. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of

liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

52. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 98(b).

Present Value

53. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.
54. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material. When a provision is discounted over a number of years, the present value of the provision will increase each year as the provision comes closer to the expected time of settlement (see Illustrative Example).
55. Paragraph 97(e) of this Standard requires disclosure of the increase, during the period, in the discounted amount arising from the passage of time.
56. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.
57. In some jurisdictions, income taxes or income tax equivalents are levied on a public sector entity's surplus for the period. Where such income taxes are levied on public sector entities, the discount rate selected should be a pretax rate.

Impact of Future Events on the Cost of Fulfillment

59. Expected future events may be particularly important in measuring ~~provisions~~liabilities. For example, certain obligations may be index-linked to compensate recipients for the effects of inflation or other specific price changes. If there is sufficient evidence of likely expected rates of inflation, this should be reflected in the amount of the ~~provision~~liability. Another example of future events affecting the amount of a ~~provision~~liability is where a government believes that the cost of cleaning up the tar, ash, and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount recognized reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology, or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.
60. The effect of possible new legislation that may affect the amount of an existing obligation of a government or an individual public sector entity is taken into consideration in measuring that obligation, when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both (a) of what legislation will demand, and (b) of whether it is virtually certain to be enacted and implemented

in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Expected Disposal of Assets

61. Gains from the expected disposal of assets shall not be taken into account in measuring a provision.
62. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognizes gains on expected disposals of assets at the time specified by the IPSAS dealing with the assets concerned.

Cost of Fulfillment for a Restructuring Provisions

93. The cost of fulfillment for Aa restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:
 - (a) Necessarily entailed by the restructuring; and
 - (b) Not associated with the ongoing activities of the entity.
94. A restructuring provision does not include such costs as:
 - (a) Retraining or relocating continuing staff;
 - (b) Marketing; or
 - (c) Investment in new systems and distribution networks.

These expenditures relate to the future conduct of an activity, and are not liabilities for restructuring at the reporting date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring.

95. Identifiable future operating net deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract, ~~as defined in paragraph 18.~~
96. ~~As required by paragraph 61, g~~ Gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Appendix C: Fair value—application guidance

Fair value application guidance begins on the following page.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTE: The text from IPSAS 16 (see below) will need to be reviewed to ensure it is consistent/necessary.

~~Exposure Draft XX~~
~~Month-Year~~
~~Comments due: Month-Day, Year~~

IPSAS®

~~Proposed International Public Sector Accounting
Standard®~~

~~Fair Value Measurement~~

IPSASB

International Public
Sector Accounting
Standards Board®

~~This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).~~

~~The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.~~

~~In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.~~

~~IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.~~

~~The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).~~

~~Copyright © [Month and Year] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx].~~

REQUEST FOR COMMENTS

~~This Exposure Draft, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).~~

~~The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**~~

~~Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.~~

~~EXPOSURE DRAFT XX, FAIR VALUE MEASUREMENT~~

CONTENTS

	Paragraph
Objective	1–4
Scope	5–8
<u>Definitions</u>	<u>9</u>
Measurement	5–86
Definition of fair value	5
The asset or liability	7
The transaction	11
Market participants	18
The price	20
Application to non-financial assets	23
Application to liabilities and an entity's own equity instruments	30
Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk	44
Fair value at initial recognition	53
Valuation techniques	57
Inputs to valuation techniques	63
Fair value hierarchy	68
<u>Disclosures</u>	<u>92–929</u>
<u>10010099</u>	
<u>Defined Terms</u>	
Application Guidance	
Amendments to other IPSASs	
Basis for Conclusions	

Objective

1. ~~This IFRSIPSAS:~~

- ~~(a) defines Defines fair value; NOTE: Not required.~~
- ~~(b) sets Sets out in a single IFRSIPSAS a framework for measuring fair value; and NOTE: not required.~~
- ~~(c) requires Requires disclosures about fair value measurements. NOTE: not required in this [draft] IPSAS.~~

NOTE: These paragraphs (2 to 4) have been moved to the core text of the ED.

- ~~2. Fair value is a market-based measurement, not an entity specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (ie i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).~~
- ~~3. When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises~~maximizes~~ the use of relevant observable inputs and minimises~~minimizes~~ the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.~~
- ~~4. The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this IFRSIPSAS shall be applied to an entity's own equity instruments measured at fair value.~~

Scope

~~5.1.~~ This **IFRSIPSAS¹** applies when another **IFRSIPSAS** requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except as specified in paragraphs 2 and 3.

~~6.2.~~ The measurement and disclosure requirements of this **IFRSIPSAS** do not apply to the following:

- ~~(a) share**Share**-based payment transactions to which the relevant international or national accounting standard dealing with share based payment applies~~within the scope of IFRS 2 Share-based Payment~~;~~
- ~~(b) leasing**Leasing** transactions accounted for in accordance with **IFRS-IPSAS 16**, Leases; and~~

¹ Fair value text included in an application guidance appendix to IPSAS, *Measurement*, would refer to “application guidance” rather than “IPSAS.”

- (c) ~~measurements~~ Measurements that have some similarities to fair value but are not fair value, such as net ~~realisable~~ realizable value in IPSAS 12, Inventories, or value in use in IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 36-26, Impairment of Cash-Generating Assets.

~~7.3.~~ The disclosures required by this ~~IFRS~~ IPSAS are not required for the following:

- (a) ~~plan~~ Plan assets measured at fair value in accordance with IPSAS 49-39, Employee Benefits; and
- ~~(b) retirement benefit plan investments measured at fair value in accordance with IAS 26 Accounting and Reporting by Retirement Benefit Plans; and~~
- ~~(c)(b) assets~~ Assets for which recoverable amount is fair value less costs of disposal in accordance with IPSAS 21 and IPSAS 36-26.

~~8.4.~~ The fair value measurement framework described in this ~~IFRS~~ IPSAS applies to both initial and subsequent measurement if fair value is required or permitted by other ~~IFRS~~ IPSASs.

Definitions [NOTE: definitions have been included in ED paragraph 6]

~~The following terms are used in this Standard with the meanings specified:~~

~~An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.~~

~~The cost approach is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).~~

~~An entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.~~

~~An exit price is the price that would be received to sell an asset or paid to transfer a liability.~~

~~Expected cash flow is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.~~

~~Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.~~

~~Highest and best use is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.~~

~~The income approach is a valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.~~

~~Inputs are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:~~

~~—— The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and~~

~~—— The risk inherent in the inputs to the valuation technique.~~

~~Inputs may be observable or unobservable.~~

~~Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.~~

~~Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.~~

~~Level 3 inputs are unobservable inputs for the asset or liability.~~

~~The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation.~~

~~Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.~~

~~Market participants are Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:~~

- ~~—— They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Parties Disclosures*, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.~~
- ~~—— They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.~~
- ~~—— They are able to enter into a transaction for the asset or liability.~~
- ~~—— They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.~~

~~The most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.~~

~~Non-performance risk is the risk that an entity will not fulfil an obligation. Non-performance includes, but may not be limited to, the entity's own credit risk.~~

~~Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.~~

~~An orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).~~

~~The principal market is the market with the greatest volume and level of activity for the asset or liability.~~

~~A risk premium is a compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.~~

~~Transaction costs are the costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:~~

- ~~—— They result directly from and are essential to that transaction.~~

~~They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.~~

~~Transportation costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.~~

~~The unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.~~

~~Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.~~

Measurement

Definition of fair value

9.5. This ~~IFRS~~**IPSAS** defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

~~10.6.~~ Paragraph AG2 describes the overall fair value measurement approach.

The asset or liability

11.7. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

- (a) ~~the~~**The** condition and location of the asset; and
- (b) ~~R~~**re**strictions, if any, on the sale or use of the asset.

~~12.8.~~ The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants.

~~13.9.~~ The asset or liability measured at fair value might be either of the following:

- (a) ~~a~~**A** stand-alone asset or liability (~~eg e.g.,~~ a financial instrument or a non-financial asset); or
- (b) ~~a~~**A** group of assets, a group of liabilities or a group of assets and liabilities (~~eg e.g.,~~ a cash-generating unit or a ~~business~~**operation**).

~~14.10.~~ Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its *unit of account*. The unit of account for the asset or liability shall be determined in accordance with the ~~IFRS~~**IPSAS** that requires or permits the fair value measurement, except as provided in this ~~IFRS~~**IPSAS**.

The transaction

15.11. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

~~16.12.~~ A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- (a) ~~in~~**In** the principal market for the asset or liability; or
- (b) ~~in~~**In** the absence of a principal market, in the most advantageous market for the asset or liability.

~~17.13.~~ An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

~~18.14.~~ If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

~~19.15.~~ The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and ~~businesses~~**operations** within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and ~~businesses~~**operations** within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.

~~20.16.~~ Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.

~~21.17.~~ Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

Market participants

~~22.18.~~ An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

~~23.19.~~ In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:

- (a) ~~the~~**The** asset or liability;
- (b) ~~the~~**The** principal (or most advantageous) market for the asset or liability; and
- (c) ~~market~~**Market** participants with whom the entity would enter into a transaction in that market.

The price

24-20. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (~~ie i.e.~~, an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

25-21. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for *transaction costs*. Transaction costs shall be accounted for in accordance with other ~~IFRS~~IPSASs. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.

26-22. Transaction costs do not include *transport costs*. If location is a characteristic of the asset (as might be the case, for example, for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

Application to non-financial assets

Highest and best use for non-financial assets

27-23. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its *highest and best use* or by selling it to another market participant that would use the asset in its highest and best use.

28-24. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

- (a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (~~eg e.g.~~, the location or size of a property).
- (b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (~~eg e.g.~~, the zoning regulations applicable to a property).
- (c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

29-25. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would ~~maximise~~maximize the value of the asset.

30-26. To protect its competitive position, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset that the entity plans to use defensively by preventing others from using it. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

Valuation premise for non-financial assets

~~31-27.~~ The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:

- (a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (~~eg-e.g., an businessoperation~~).
 - (i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (~~ie-i.e.,~~ its complementary assets and the associated liabilities) would be available to market participants.
 - (ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.
 - (iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.
- (b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

~~32-28.~~ The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other ~~IFRS~~~~IPSAS~~s (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.

~~33-29.~~ Paragraph AG3 describes the application of the valuation premise concept for non-financial assets.

Application to liabilities and an entity's own equity instruments*General principles*

~~34-30.~~ A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (~~eg-e.g.,~~ equity interests issued as consideration in a ~~business-public sector~~ combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

- (a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

- (b) **An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.**

~~35.31.~~ Even when there is no observable market to provide pricing information about the transfer of a liability or an entity's own equity instrument (~~eg-e.g.~~ because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (~~eg-e.g.~~ a corporate bond or a call option on an entity's shares).

~~36.32.~~ In all cases, an entity shall ~~maximise-maximize~~ the use of relevant observable inputs and ~~minimise-minimize~~ the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

Liabilities and equity instruments held by other parties as assets

~~37.33.~~ **When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.**

~~38.34.~~ In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

- (a) ~~using-Using~~ the quoted price in an active market for the identical item held by another party as an asset, if that price is available.
- (b) ~~if-If~~ that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.
- (c) ~~if-If~~ the observable prices in (a) and (b) are not available, using another valuation technique, such as:
 - (i) ~~an-An~~ income approach (~~eg-e.g.~~ a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs AG10 and AG11).
 - (ii) ~~a-A~~ market approach (~~eg-e.g.~~ using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs AG5–AG7).

~~39.35.~~ An entity shall adjust the quoted price of a liability or an entity's own equity instrument held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

- (a) The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (~~eg-e.g.~~ the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset.
- (b) The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit

enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

Liabilities and equity instruments not held by other parties as assets

40.36. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

41.37. For example, when applying a present value technique an entity might take into account either of the following:

- (a) ~~the~~The future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs AG31–AG33).
- (b) ~~the~~The amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (~~eg e.g.~~ having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

Non-performance risk

42.38. The fair value of a liability reflects the effect of *non-performance risk*. Non-performance risk includes, but may not be limited to, an entity's own credit risk (as defined in ~~IFRS 7~~IPSAS 30, *Financial Instruments: Disclosures*). Non-performance risk is assumed to be the same before and after the transfer of the liability.

43.39. When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:

- (a) ~~whether~~Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability).
- (b) ~~the~~The terms of credit enhancements related to the liability, if any.

44.40. The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (~~eg e.g.~~ a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the liability, the issuer would take into account its own credit standing and not that of the third party guarantor when measuring the fair value of the liability.

Restriction preventing the transfer of a liability or an entity's own equity instrument

45.41. When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other *inputs* relating to the existence of a restriction that

prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability or an entity's own equity instrument is either implicitly or explicitly included in the other inputs to the fair value measurement.

~~46-42.~~ For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

Financial liability with a demand feature

~~47-43.~~ The fair value of a financial liability with a demand feature (~~eg-e.g.~~, a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

~~48-44.~~ An entity that holds a group of financial assets and financial liabilities is exposed to market risks (as defined in ~~IFRS-7~~[IPSAS 30](#)) and to the credit risk (as defined in ~~IFRS-7~~[IPSAS 30](#)) of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this ~~IFRS~~[IPSAS](#) for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (~~ie-i.e.~~, an asset) for a particular risk exposure or paid to transfer a net short position (~~ie-i.e.~~, a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

~~49-45.~~ An entity is permitted to use the exception in paragraph 44 only if the entity does all the following:

- (a) ~~manages~~[Manages](#) the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;
- (b) ~~provides~~[Provides](#) information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in [IPSAS 24-20](#), *Related Party Disclosures*; and
- (c) ~~is~~[Is](#) required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.

~~50-46.~~ The exception in paragraph 44 does not pertain to financial statement presentation. In some cases the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if an ~~IFRS~~[IPSAS](#) does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs 49–52) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of

the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

51.47. An entity shall make an accounting policy decision in accordance with [IPSAS 8-3, Accounting Policies, Changes in Accounting Estimates and Errors](#), to use the exception in paragraph 44. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs 49–51) and credit adjustments (see paragraph 52), if applicable, consistently from period to period for a particular portfolio.

52.48. The exception in paragraph 44 applies only to financial assets, financial liabilities and other contracts within the scope of [IFRS-9/IPSAS 41, Financial Instruments](#) (or [IPSAS 39-29, Financial Instruments: Recognition and Measurement](#), if [IFRS-9/IPSAS 41](#) has not yet been adopted). The references to financial assets and financial liabilities in paragraphs 44–47 and 49–52 should be read as applying to all contracts within the scope of, and accounted for in accordance with, [IFRS-9/IPSAS 41](#) (or [IPSAS 39-29](#), if [IFRS-9/IPSAS 41](#) has not yet been adopted), regardless of whether they meet the definitions of financial assets or financial liabilities in [IPSAS 32-28, Financial Instruments: Presentation](#).

Exposure to market risks

53.49. When using the exception in paragraph 44 to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs 66 and 67).

54.50. When using the exception in paragraph 44, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph 44, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.

55.51. Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure ([ie i.e.](#), years 2–5) on a gross basis.

Exposure to the credit risk of a particular counterparty

56.52. When using the exception in paragraph 44 to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default ([eg e.g.](#), a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value

measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Fair value at initial recognition

~~57-53.~~ When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an *entry price*). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an *exit price*). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

~~58-54.~~ In many cases the transaction price will equal the fair value (~~eg e.g.~~ that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).

~~59-55.~~ When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph AG4 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.

~~60-56.~~ If another ~~IFRSIPSAS~~ requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall ~~recognise-recognize~~ the resulting gain or loss in ~~profit-or-loss~~ ~~surplus or deficit~~ unless that ~~IFRSIPSAS~~ specifies otherwise.

Valuation techniques

~~61-57.~~ **An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, ~~maximising~~ ~~maximizing~~ the use of relevant observable inputs and ~~minimising~~ ~~minimizing~~ the use of unobservable inputs.**

~~62-58.~~ The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are ~~summarised-~~ ~~summarized~~ in paragraphs AG5–AG11. An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

~~63-59.~~ In some cases a single valuation technique will be appropriate (~~eg e.g.~~ when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (~~eg e.g.~~ that might be the case when valuing a cash-generating unit). If multiple valuation techniques are used to measure fair value, the results (~~ie i.e.~~ respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

~~64-60.~~ If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary (~~eg e.g.~~ there might be a characteristic of the asset or liability that is not captured by the valuation

technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (~~eg e.g.~~, the price for a similar asset or liability) at the measurement date.

~~65-61.~~ Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application (~~eg e.g.~~ a change in its weighting when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

- (a) ~~new-New~~ markets develop;
- (b) ~~new-New~~ information becomes available;
- (c) ~~information-Information~~ previously used is no longer available;
- (d) ~~valuation-Valuation~~ techniques improve; or
- (e) ~~market-Market~~ conditions change.

~~66-62.~~ Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with [IPSAS 83](#). However, the disclosures in [IPSAS 8-3](#) for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

Inputs to valuation techniques

General principles

~~67-63.~~ Valuation techniques used to measure fair value shall ~~maximise-maximize~~ the use of relevant observable inputs and ~~minimise-minimize~~ the use of unobservable inputs.

~~68-64.~~ Examples of markets in which inputs might be observable for some assets and liabilities (~~eg e.g.~~, financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets (see paragraph AG34).

~~69-65.~~ An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 7 and 8). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (~~eg e.g.~~ a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the ~~IFRS~~[IPSAS](#) that requires or permits the fair value measurement (see paragraphs 9 and 10). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph 76) rather than as a characteristic of the asset or liability (~~eg e.g.~~ a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (~~ie i.e.~~ a *Level 1 input*) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph 75.

Inputs based on bid and ask prices

~~70-66.~~ If an asset or a liability measured at fair value has a bid price and an ask price (~~eg-e.g.~~, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is ~~categorised~~ categorized within the fair value hierarchy (~~ie-i.e.~~, Level 1, 2 or 3; see paragraphs 68–86). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.

~~71-67.~~ This ~~IFRS~~IPSAS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Fair value hierarchy

~~72-68.~~ To increase consistency and comparability in fair value measurements and related disclosures, this ~~IFRS~~IPSAS establishes a fair value hierarchy that ~~categorises~~categorizes into three levels (see paragraphs 72–86) the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (*Level 3 inputs*).

~~73-69.~~ In some cases, the inputs used to measure the fair value of an asset or a liability might be ~~categorised~~categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is ~~categorised~~categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is ~~categorised~~categorized.

~~74-70.~~ The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques (see paragraph 57). However, the fair value hierarchy ~~prioritises~~prioritizes the inputs to valuation techniques, not the valuation techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be ~~categorised~~categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are ~~categorised~~categorized.

~~75-71.~~ If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be ~~categorised~~categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a *Level 2 input* and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be ~~categorised~~categorized within Level 3 of the fair value hierarchy.

Level 1 inputs

~~76-72.~~ Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

~~77.~~73. A quoted price in an active market provides the most ~~faithfully representative reliable~~ evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph 75.

~~78.~~74. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (~~eg e.g.~~ on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- (a) ~~the~~The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and
- (b) ~~whether~~Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.

~~79.~~75. An entity shall not make an adjustment to a Level 1 input except in the following circumstances:

- (a) ~~when~~When an entity holds a large number of similar (but not identical) assets or liabilities (~~eg e.g.~~ debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (~~ie i.e.~~ given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (~~eg e.g.~~ matrix pricing). However, the use of an alternative pricing method results in a fair value measurement ~~categorised~~categorized within a lower level of the fair value hierarchy.
- (b) ~~when~~When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement ~~categorised~~categorized within a lower level of the fair value hierarchy.
- (c) ~~when~~When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph 35). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement ~~categorised~~categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement ~~categorised~~categorized within a lower level of the fair value hierarchy.

~~80.~~76. If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 inputs

~~81-77.~~ Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

~~82-78.~~ If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- (a) ~~quoted-Quoted~~ prices for similar assets or liabilities in active markets.
- (b) ~~quoted-Quoted~~ prices for identical or similar assets or liabilities in markets that are not active.
- (c) inputs other than quoted prices that are observable for the asset or liability, for example:
 - (i) ~~interest-Interest~~ rates and yield curves observable at commonly quoted intervals;
 - (ii) ~~implied-Implied~~ volatilities; and
 - (iii) ~~credit-Credit~~ spreads.
- (d) ~~marketMarket~~-corroborated inputs.

~~83-79.~~ Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

- (a) ~~the-The~~ condition or location of the asset;
- (b) ~~the-The~~ extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph 35); and
- (c) ~~the-The~~ volume or level of activity in the markets within which the inputs are observed.

~~84-80.~~ An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement ~~categorisedcategorized~~ within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

~~85-81.~~ Paragraph AG35 describes the use of Level 2 inputs for particular assets and liabilities.

Level 3 inputs

~~86-82.~~ Level 3 inputs are unobservable inputs for the asset or liability.

~~87-83.~~ Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, ~~ie-i.e.~~, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

~~88-84.~~ Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (~~eg-e.g.~~, when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has

determined that the transaction price or quoted price does not represent fair value, as described in paragraphs AG37–AG47).

~~89.85.~~ An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (~~eg e.g.~~ an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

~~90.86.~~ Paragraph AG36 describes the use of Level 3 inputs for particular assets and liabilities.

Disclosure [Note: requirements in respect of disclosures will not be included in [draft] IPSAS, Measurement

~~91. An entity shall disclose information that helps users of its financial statements assess both of the following:~~

- ~~(a) for For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.~~
- ~~(b) for For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss surplus or deficit or other comprehensive income net assets/equity for the period.~~

~~92. To meet the objectives in paragraph 920201, an entity shall consider all the following:~~

- ~~(a) the The level of detail necessary to satisfy the disclosure requirements;~~
- ~~(b) how How much emphasis to place on each of the various requirements;~~
- ~~(c) how How much aggregation or disaggregation to undertake; and~~
- ~~(d) whether Whether users of financial statements need additional information to evaluate the quantitative information disclosed.~~

~~If the disclosures provided in accordance with this IFRS IPSAS and other IFRS IPSASs are insufficient to meet the objectives in paragraph 920201, an entity shall disclose additional information necessary to meet those objectives.~~

~~93. To meet the objectives in paragraph 920201, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 950504 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS IPSAS) in the statement of financial position after initial recognition:~~

- ~~(a) for For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that~~

~~other IFRSIPSASs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSIPSASs require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations because the asset's fair value less costs to sell is lower than its carrying amount).~~

- ~~(b) for For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorisedcategorized in their entirety (Level 1, 2 or 3).~~
- ~~(b) for For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 969695). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.~~
- ~~(b) for For recurring and non-recurring fair value measurements categorisedcategorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg e.g., changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorisedcategorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.~~
- ~~(b) for For recurring fair value measurements categorisedcategorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:~~
 - ~~(-) total Total gains or losses for the period recognisedrecognized in profit or loss~~surplus or deficit~~, and the line item(s) in profit or loss~~surplus or deficit~~ in which those gains or losses are recognisedrecognized.~~
 - ~~(-) total Total gains or losses for the period recognisedrecognized in other comprehensive income~~net assets/equity~~, and the line item(s) in other comprehensive income~~net assets/equity~~ in which those gains or losses are recognisedrecognized.~~
 - ~~(i) purchasesPurchases, sales, issues and settlements (each of those types of changes disclosed separately).~~
 - ~~(ii) the The amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 969695). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.~~

- ~~(c) for For recurring fair value measurements categorisedcategorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss~~surplus or deficit ~~that is attributable to the change in unrealisedunrealized gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss~~surplus or deficit ~~in which those unrealisedunrealized gains or losses are recognisedrecognized.~~
- ~~(d) for For recurring and non-recurring fair value measurements categorisedcategorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).~~
- ~~(d) for For recurring fair value measurements categorisedcategorized within Level 3 of the fair value hierarchy:~~
 - ~~(i) for For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).~~
 - ~~(i) for For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss~~surplus or deficit~~, and total assets or total liabilities, or, when changes in fair value are recognisedrecognized in other comprehensive income~~net assets/equity, net assets/equity, total equity.
- ~~(d) for For recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.~~

93. An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

- ~~(d) the The nature, characteristics and risks of the asset or liability; and~~
- ~~(e) the The level of the fair value hierarchy within which the fair value measurement is categorisedcategorized.~~

The number of classes may need to be greater for fair value measurements categorisedcategorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IFRSIPSAS specifies the

class for an asset or a liability, an entity may use that class in providing the disclosures required in this IFRSIPSAS if that class meets the requirements in this paragraph.

94. ~~An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 94(c)94(c)93(c) and 94(e)(iv)94(e)(iv)93(e)(iv). The policy about the timing of recognisingrecognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:~~
- ~~(a) the The date of the event or change in circumstances that caused the transfer.~~
 - ~~(b) the The beginning of the reporting period.~~
 - ~~(b) the The end of the reporting period.~~
94. ~~If an entity makes an accounting policy decision to use the exception in paragraph 494948, it shall disclose that fact.~~
94. ~~For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 94(b)94(b)93(b), 94(d)94(d)93(d) and 94(i)94(i)93(i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorisedcategorized within Level 3 of the fair value hierarchy required by paragraph 94(d)94(d)93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRSIPSAS.~~
94. ~~For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.~~
94. ~~An entity shall present the quantitative disclosures required by this IFRSIPSAS in a tabular format unless another format is more appropriate.~~

Defined terms

This Appendix is an integral part of [draft] IPSAS [X] (ED 64).

active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
cost approach	A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
entry price	The price paid to acquire an asset or received to assume a liability in an exchange transaction.
exit price	The price that would be received to sell an asset or paid to transfer a liability.
expected cash flow	The probability-weighted average (ie mean of the distribution) of possible future cash flows.
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
highest and best use	The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.
income approach	Valuation techniques that convert future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
inputs	The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following: (a) — the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and (b) — the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.
Level 1 inputs	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 inputs	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs	Unobservable inputs for the asset or liability.
market approach	A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.
market-corroborated inputs	Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

market participant	<p>Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:</p> <ul style="list-style-type: none"> (a) — They are independent of each other, ie they are not related parties as defined in IAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) — They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) — They are able to enter into a transaction for the asset or liability. (d) — They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.
most advantageous market	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.
non-performance risk	The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).
principal market	The market with the greatest volume and level of activity for the asset or liability.
risk premium	Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.
transaction costs	<p>The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:</p> <ul style="list-style-type: none"> (a) — They result directly from and are essential to that transaction. (b) — They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in IFRS 5).
transport costs	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.
unit of account	The level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes.
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 64).

AG1. The judgements applied in different valuation situations may be different. This appendix describes the judgements that might apply when an entity measures fair value in different valuation situations.

The fair value measurement approach

AG2. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:

~~(e)(a) the~~ The particular asset or liability that is the subject of the measurement (consistently with its unit of account).

~~(e)(b) for~~ For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).

~~(e)(c) the~~ The principal (or most advantageous) market for the asset or liability.

~~(f)(d) the~~ The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are ~~categorised~~ categorized.

Valuation premise for non-financial assets (paragraphs 27–29)

AG3. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (~~eg e.g., an~~ business operation), the effect of the valuation premise depends on the circumstances. For example:

(a) ~~the~~ The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an business operation that market participants would continue to operate. In that case, the transaction would involve valuing the business operation in its entirety. The use of the assets as a group in an ongoing business operation would generate synergies that would be available to market participants (~~ie i.e.,~~ market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).

(b) ~~an~~ An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair

value measurement reflects the current condition and location of the machine (installed and configured for use).

- (c) ~~an-An~~ asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any ~~specialised~~specialized machinery necessary to convert the inventory into finished goods.
- (d) ~~an-An~~ asset's use in combination with other assets or with other assets and liabilities might be incorporated into the valuation technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that valuation technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.
- (e) ~~in-In~~ more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (~~ie i.e.~~an asset group) is allocated to its component assets (such as land and improvements).

Fair value at initial recognition (paragraphs 53–56)

AG4. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

- (a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
- (b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
- (c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (~~eg e.g.~~in a business-public sector combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IFRSIPSAS, or the transaction price includes transaction costs.
- (d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.

Valuation techniques (paragraphs 57–62)

Market approach

- AG5. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (~~ie i.e.~~, similar) assets, liabilities or a group of assets and liabilities, such as an ~~an~~ business operation.
- AG6. For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.
- AG7. Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

Cost approach

- AG8. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
- AG9. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

Income approach

- AG10. The income approach converts future amounts (~~eg e.g.~~ cash flows or income and expenses) to a single current (~~ie i.e.~~ discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.
- AG11. Those valuation techniques include, for example, the following:
- (a) ~~present~~ Present value techniques (see paragraphs AG12–AG30);
 - (b) ~~option~~ Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (~~ie i.e.~~ a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and
 - (c) ~~the~~ The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Present value techniques

- AG12. Paragraphs AG13–AG30 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow

(expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (~~eg e.g.~~, whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The components of a present value measurement

AG13. Present value (~~ie i.e.~~, an application of the income approach) is a tool used to link future amounts (~~eg e.g.~~, cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:

- (a) ~~an~~An estimate of future cash flows for the asset or liability being measured.
- (b) ~~expectations~~Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.
- (c) ~~the~~The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (~~ie i.e.~~, a risk-free interest rate).
- (d) ~~the~~The price for bearing the uncertainty inherent in the cash flows (~~ie i.e.~~, a risk premium).
- (e) ~~other~~Other factors that market participants would take into account in the circumstances.
- (f) ~~for~~For a liability, the non-performance risk relating to that liability, including the entity's (~~ie i.e.~~, the obligor's) own credit risk.

General principles

AG14. Present value techniques differ in how they capture the elements in paragraph AG13. However, all the following general principles govern the application of any present value technique used to measure fair value:

- (a) Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.
- (b) Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.
- (c) To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (~~ie i.e.~~, a discount rate adjustment technique). That same rate should not be used if using expected (~~ie i.e.~~, probability-weighted) cash flows (~~ie i.e.~~, an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- (d) Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a

rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.

- (e) Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and uncertainty

AG15. A fair value measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.

AG16. Market participants generally seek compensation (~~ie i.e.~~, a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.

AG17. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

- (a) The discount rate adjustment technique (see paragraphs AG18–AG22) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.
- (b) Method 1 of the expected present value technique (see paragraph AG25) uses risk-adjusted expected cash flows and a risk-free rate.
- (c) Method 2 of the expected present value technique (see paragraph AG26) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

Discount rate adjustment technique

AG18. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (~~eg e.g.~~, contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (~~ie i.e.~~, a market rate of return).

AG19. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (~~eg e.g.~~, whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (~~eg e.g.~~, credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it

may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (*ie i.e.*, using a 'build-up' approach).

AG20. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU8002 in one year (*ie i.e.*, there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

- (a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (*ie i.e.*, a one-year market rate of return) is 10.8 per cent $[(CU1,200/CU1,083) - 1]$.
- (b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (*ie i.e.*, a two-year market rate of return) is 11.2 per cent $[(CU700/CU566)^{0.5} - 1]$.
- (c) All three assets are comparable with respect to risk (*ie i.e.*, dispersion of possible pay-offs and credit).

AG21. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (*ie i.e.*, one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the fair value of Asset A is CU722 $(CU800/1.108)$. Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.

AG22. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

Expected present value technique

AG23. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (*ie i.e.*, the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).

²In this IFRS monetary amounts are denominated in 'currency units (CU)'.

AG24. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:

- (a) ~~unsystematic~~ **Unsystematic** (diversifiable) risk, which is the risk specific to a particular asset or liability.
- (b) ~~systematic~~ **Systematic** (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

AG25. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (~~ie i.e.~~ market) risk by subtracting a cash risk premium (~~ie i.e.~~ risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (~~ie i.e.~~ the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.

AG26. In contrast, Method 2 of the expected present value technique adjusts for systematic (~~ie i.e.~~ market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (~~ie i.e.~~ an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

AG27. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

Possible cash flows	Probability	Probability-weighted cash flows
CU500	15%	CU75
CU800	60%	CU480
CU900	25%	CU225
Expected cash flows		CU780

AG28. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to

take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use ~~realised~~realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (~~eg e.g.~~eg e.g. changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.

AG29. In theory, the present value (~~ie i.e.~~ie i.e. the fair value) of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:

- (a) Using Method 1, the expected cash flows are adjusted for systematic (~~ie i.e.~~ie i.e. market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (~~ie i.e.~~ie i.e. the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent ($CU780 - [CU780 \times (1.05/1.08)]$), which results in risk-adjusted expected cash flows of CU758 ($CU780 - CU22$). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (~~ie i.e.~~ie i.e. the fair value) of the asset is CU722 ($CU758/1.05$).
- (b) Using Method 2, the expected cash flows are not adjusted for systematic (~~ie i.e.~~ie i.e. market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (~~ie i.e.~~ie i.e. the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value (~~ie i.e.~~ie i.e. the fair value) of the asset is CU722 ($CU780/1.08$).

AG30. When using an expected present value technique to measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgements applied.

Applying present value techniques to liabilities and an entity's own equity instruments not held by other parties as assets (paragraphs 36 and 37)

AG31. When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (~~eg e.g.~~eg e.g. a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for the following:

- (a) ~~undertaking~~Undertaking the activity (~~ie i.e.~~ie i.e. the value of fulfilling the obligation; ~~eg e.g.~~eg e.g. by using resources that could be used for other activities); and
- (b) ~~assuming~~Assuming the risk associated with the obligation (~~ie i.e.~~ie i.e. a risk premium that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph AG33).

AG32. For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases the components of the return that market participants would require will be indistinguishable from one another (~~eg-e.g.~~ when using the price a third party contractor would charge on a fixed fee basis). In other cases an entity needs to estimate those components separately (~~eg-e.g.~~ when using the price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

AG33. An entity can include a risk premium in the fair value measurement of a liability or an entity's own equity instrument that is not held by another party as an asset in one of the following ways:

- (a) ~~by-By~~ adjusting the cash flows (~~ie-i.e.~~ as an increase in the amount of cash outflows); or
- (b) ~~by-By~~ adjusting the rate used to discount the future cash flows to their present values (~~ie i.e.~~ as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

Inputs to valuation techniques (paragraphs 63–67)

AG34. Examples of markets in which inputs might be observable for some assets and liabilities (~~eg e.g.~~ financial instruments) include the following:

- (a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange.
- (b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (~~eg-e.g.~~ used equipment).
- (c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.
- (d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.

Fair value hierarchy (paragraphs 68–86)

Level 2 inputs (paragraphs 77–81)

AG35. Examples of Level 2 inputs for particular assets and liabilities include the following:

- (a) Receive-fixed, pay-variable interest rate swap based on the ~~interbank offered rate~~~~London Interbank Offered Rate (LIBOR)~~ swap rate. A Level 2 input would be the ~~interbank offered rate~~~~LIBOR~~ swap rate if that rate is observable at commonly quoted intervals for substantially the full term of the swap.
- (b) Receive-fixed, pay-variable interest rate swap based on a yield curve denominated in a foreign currency. A Level 2 input would be the swap rate based on a yield curve denominated in a foreign currency that is observable at commonly quoted intervals for substantially the full term of the swap. That would be the case if the term of the swap is 10 years and that rate is observable at commonly quoted intervals for 9 years, provided that any reasonable extrapolation of the yield curve for year 10 would not be significant to the fair value measurement of the swap in its entirety.
- (c) Receive-fixed, pay-variable interest rate swap based on a specific bank's prime rate. A Level 2 input would be the bank's prime rate derived through extrapolation if the extrapolated values are corroborated by observable market data, for example, by correlation with an interest rate that is observable over substantially the full term of the swap.
- (d) Three-year option on exchange-traded shares. A Level 2 input would be the implied volatility for the shares derived through extrapolation to year 3 if both of the following conditions exist:
 - (i) Prices for one-year and two-year options on the shares are observable.
 - (ii) The extrapolated implied volatility of a three-year option is corroborated by observable market data for substantially the full term of the option.

In that case the implied volatility could be derived by extrapolating from the implied volatility of the one-year and two-year options on the shares and corroborated by the implied volatility for three-year options on comparable entities' shares, provided that correlation with the one-year and two-year implied volatilities is established.

- (e) Licensing arrangement. For a licensing arrangement that is acquired in a ~~business-public sector~~ combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.
- (f) Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a ~~business-public sector~~ combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (~~ie i.e.~~, similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.

- (g) Building held and used. A Level 2 input would be the price per square ~~metre~~meter for the building (a valuation multiple) derived from observable market data, ~~eg-e.g.~~ multiples derived from prices in observed transactions involving comparable (~~ie-i.e.~~ similar) buildings in similar locations.
- (h) Cash-generating unit. A Level 2 input would be a valuation multiple (~~eg-e.g.~~ a multiple of earnings or revenue or a similar performance measure) derived from observable market data, ~~eg-e.g.~~ multiples derived from prices in observed transactions involving comparable (~~ie-i.e.~~ similar) businesses/operations, taking into account operational, market, financial and non-financial factors.

Level 3 inputs (paragraphs 82–86)

AG36. Examples of Level 3 inputs for particular assets and liabilities include the following:

- (a) Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.
- (b) Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, ~~ie-i.e.~~ the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.
- (c) Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.
- (d) Decommissioning liability assumed in a business-public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfil the obligation (including market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, ~~eg-e.g.~~ a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.
- (e) Cash-generating unit. A Level 3 input would be a financial forecast (~~eg-e.g.~~ of cash ~~flows or~~ profit ~~or loss~~) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

Measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased

AG37. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence

available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:

- (a) There are few recent transactions.
- (b) Price quotations are not developed using current information.
- (c) Price quotations vary substantially either over time or among market-makers ([eg-e.g.](#), some brokered markets).
- (d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
- (e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.
- (f) There is a wide bid-ask spread or significant increase in the bid-ask spread.
- (g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (~~ie-i.e.~~, a primary market) for the asset or liability or similar assets or liabilities.
- (h) Little information is publicly available ([eg-e.g.](#), for transactions that take place in a principal-to-principal market).

AG38. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value ([eg-e.g.](#), there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances ([eg-e.g.](#), when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).

AG39. This [IFRSIPSAS](#) does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs 57–62 and AG5–AG11 for a discussion of the use of valuation techniques when measuring fair value. Regardless of the valuation technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph AG17). Otherwise, the measurement does not faithfully represent fair value. In some cases determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.

AG40. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate ([eg e.g.](#), the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, an entity shall consider the

reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.

- AG41. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (~~ie i.e.~~ not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.
- AG42. Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgement. An entity's intention to hold the asset or to settle or otherwise fulfil the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

Identifying transactions that are not orderly

- AG43. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (~~ie i.e.~~ forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:
- (a) There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
 - (b) There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
 - (c) The seller is in or near bankruptcy or receivership (~~ie i.e.~~ the seller is distressed).
 - (d) The seller was required to sell to meet regulatory or legal requirements (~~ie i.e.~~ the seller was forced).
 - (e) The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

- AG44. An entity shall consider all the following when measuring fair value or estimating market risk premiums:
- (a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.
 - (b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:

- (i) ~~the~~The volume of the transaction.
 - (ii) ~~the~~The comparability of the transaction to the asset or liability being measured.
 - (iii) ~~the~~The proximity of the transaction to the measurement date.
- (c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (~~ie i.e.~~ the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

Using quoted prices provided by third parties

- AG45. This ~~IFRS~~IPSAS does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this ~~IFRS~~IPSAS.
- AG46. If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.
- AG47. Furthermore, the nature of a quote (~~eg e.g.~~ whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.

Appendix C

Effective date and transition

This Appendix is an integral part of [draft] IPSAS [X] (ED XX).

- C1 An entity shall apply this [IFRSIPSAS](#) for annual periods beginning on or after ~~1 January 2013~~[\[DD/MM/YYYY\]](#). Earlier application is permitted. If an entity applies this [IFRSIPSAS](#) for an earlier period, it shall disclose that fact.
- C2 This [IFRSIPSAS](#) shall be applied prospectively as of the beginning of the annual period in which it is initially applied.
- C3 The disclosure requirements of this [IFRSIPSAS](#) need not be applied in comparative information provided for periods before initial application of this [IFRSIPSAS](#).
- ~~C4 Annual Improvements Cycle 2011–2013 issued in December 2013 amended paragraph 52. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. An entity shall apply that amendment prospectively from the beginning of the annual period in which IFRS 13 was initially applied. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.~~
- ~~C5 IFRS 9, as issued in July 2014, amended paragraph 52. An entity shall apply that amendment when it applies IFRS 9.~~
- ~~C6 IFRS 16 Leases, issued in January 2016, amended paragraph 6. An entity shall apply that amendment when it applies IFRS 16.~~

Amendments to other IPSASs

This Appendix is an integral part of [draft] IPSAS [X] (ED XX).

Amendments to IPSAS 16, *Investment Property*

Paragraphs 35, 38, 41, 49, 57, 62, 62B, 89 and 90 and several headings are amended. Paragraphs 45–48, 51–56, 58, 60 and 86(d) were deleted. Paragraph 101C was added. New text is underlined and deleted text is struck through.

...

Measurement at Recognition

...

35. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on measuring ~~determining~~ the fair value of a property interest is set out for the fair value model in paragraphs 42–44, 49, 50, 57, 59 and 61 and in [draft] IPSAS [X] (ED XX). That guidance is also relevant to the measurement ~~determination~~ of fair value when that value is used as cost for initial recognition purposes.

...

38. The fair value of an asset ~~for which comparable market transactions do not exist~~ is reliably measurable if (a) the variability in the range of reasonable fair value measurements ~~estimates~~ is not significant for that asset or (b) the probabilities of the various ~~estimates~~ within the range can be reasonably assessed and used when measuring ~~in estimating~~ fair value. If the entity is able to measure ~~determine~~ reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

...

41. This Standard requires all entities to measure ~~determine~~ the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to measure ~~determine~~ the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

...

Fair Value Model

...

45. ~~The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.~~
46. ~~An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.~~
47. **~~The fair value of investment property shall reflect market conditions at the reporting date.~~**
48. ~~Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.~~
49. ~~When measuring the~~ The fair value of investment property in accordance with [draft] IPSAS [X] (ED XX), an entity shall ensure that the fair value reflects, among other things, rental revenue from current leases and other reasonable and supportable assumptions that market participants represent what knowledgeable, willing parties would use when pricing the investment property under ~~assume about rental revenue from future leases in the light of under current market conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of these outflows are reflected in the liability whereas others relate to outflows that are not recognized in the financial statements until a later date (e.g. periodic payments such as contingent rents).~~
- ...
51. ~~The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.~~
52. ~~A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (e.g., a willing seller would not take into account the particular tax circumstances of the actual investment property owner).~~
53. ~~The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.~~
54. ~~The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.~~

55. ~~In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:~~
- ~~(a) Current prices in an active market for properties of different nature, condition, or location (or subject to different lease or other contracts), adjusted to reflect those differences;~~
 - ~~(b) Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and~~
 - ~~(c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence, such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.~~
56. ~~In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.~~
57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value measurements estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable ~~determinable~~ on a continuing basis (see paragraph 62).
58. ~~Fair value differs from value in use, as defined in IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors, to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:~~
- ~~(a) Additional value derived from the creation of a portfolio of properties in different locations;~~
 - ~~(b) Synergies between investment property and other assets;~~
 - ~~(c) Legal rights or legal restrictions that are specific only to the current owner; and~~
 - ~~(d) Tax benefits or tax burdens that are specific to the current owner.~~
- ...
60. ~~The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.~~
- ...

Inability to Measure ~~Determine~~ Fair Value Reliably

62. There is a rebuttable presumption that an entity can reliably measure ~~determine~~ the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable ~~determinable~~ on a continuing basis. This arises when, and

only when, the market for comparable properties is inactive (e.g., there are few recent market transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) ~~are infrequent~~ and alternative reliable measurements ~~estimates~~ of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable ~~determinable~~ but expects the fair value of the property to be reliably measurable ~~determinable~~ when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable ~~determinable~~ or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable ~~determinable~~ on a continuing basis, the entity shall measure that investment property using the cost model in IPSAS 17. The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 until disposal of the investment property.

...

- 62B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be measured ~~determined~~ reliably.

...

Fair Value Model and Cost Model

...

86. An entity shall disclose:
- (a) Whether it applies the fair value or the cost model;
 - (b) If it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;
 - (c) When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;
 - (d) ~~The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;~~

...

Fair Value Model

...

89. In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the cost model in IPSAS 17, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:
- (a) **A description of the investment property;**
 - (b) **An explanation of why fair value cannot be measured ~~determined~~ reliably;**

- (c) **If possible, the range of estimates within which fair value is highly likely to lie; and**
- (d) **On disposal of investment property not carried at fair value:**
 - (i) **The fact that the entity has disposed of investment property not carried at fair value;**
 - (ii) **The carrying amount of that investment property at the time of sale; and**
 - (iii) **The amount of gain or loss recognized.**

Cost Model

90. **In addition to the disclosures required by paragraph 86, an entity that applies the cost model in paragraph 65 shall disclose:**
- (a) **The depreciation methods used;**
 - (b) **The useful lives or the depreciation rates used;**
 - (c) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;**
 - (d) **The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:**
 - (i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;**
 - (ii) **Additions resulting from acquisitions through public sector combinations;**
 - (iii) **Disposals;**
 - (iv) **Depreciation;**
 - (v) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
 - (vi) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**
 - (vii) **Transfers to and from inventories and owner-occupied property; and**
 - (viii) **Other changes; and**
 - (e) **The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot measure ~~determine~~ the fair value of the investment property reliably, the entity shall disclose:**
 - (i) **A description of the investment property;**
 - (ii) **An explanation of why fair value cannot be measured ~~determined~~ reliably; and**
 - (iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

...

Effective date

101C. Paragraphs 35, 38, 41, 49, 57, 62, 62B, 89, 90, and several headings were amended and paragraphs 45–48, 51–56, 58, 60 and 86(d) were deleted by [draft] IPSAS [X] (ED XX), *Fair Value Measurement*, issued in Month YYYY. An entity shall apply these amendments for

annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs AG31, AG115, AG124, AG130, AG132 and several headings are amended. Paragraphs 66–68, and AG144–AG155 were deleted. Paragraph 156A was added. New text is underlined and deleted text is struck through.

...

Fair Value Measurement Considerations

66. ~~In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, IPSAS 28 or IPSAS 30, an entity shall apply paragraphs AG144–AG155 of Appendix A.~~
67. ~~The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.~~
68. ~~The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.~~

...

Effective date

- 156A. **Paragraphs AG31, AG115, AG124, AG130, AG132 and several headings were amended and Paragraphs 45–48 and AG144–AG155 were deleted by [draft] IPSAS [X] (ED XX), *Fair Value Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.**

...

Transfers that Qualify for Derecognition

...

AG31. When measuring the fair values of the part that continues to be recognized and the part that is derecognized for the purposes of applying paragraph 24, an entity applies the fair value measurement requirements in [draft] IPSAS [X] (ED XX), *Fair Value Measurement* paragraphs 66–68 and AG144–AG155.

...

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

AG115. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG117). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique (see [draft] IPSAS [X] (ED XX), *Fair Value Measurement* paragraphs AG149–AG154. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset.

...

Concessionary Loans

...

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs 42–58 of IPSAS 23. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in [draft] IPSAS [X] (ED XX), *Fair Value Measurement* AG144–AG155. ~~Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG115).~~

...

Equity Instruments Arising from Non-Exchange Transactions

...

AG130. To the extent an equity instrument arises from the transaction, or component of the transaction, that is within the scope of this Standard, it is to be recognized initially at fair value in accordance with paragraph 57. The equity instrument is to be measured subsequently in accordance with paragraphs 61–63. The ~~If the instrument does not have an active market, the entity shall~~ apply ~~consider valuation techniques and inputs in~~ [draft] IPSAS [X] (ED XX), *Fair Value Measurement* AG149–AG155) in determining its fair value.

...

Valuing Financial Guarantees Issued Through a Non-Exchange Transaction

...

AG132. In paragraph 9, “financial guarantee contract” is defined as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.” Under the requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognized at fair value in accordance with [draft] IPSAS [X] (ED XX), *Fair Value Measurement*. Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized less, when appropriate, cumulative amortization in accordance with IPSAS 9, Revenue from Exchange Transactions.

...

Fair Value Measurement Considerations

AG144. ~~Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. However, fair value reflects the credit quality of the instrument.~~

AG145. ~~This Standard uses the terms “bid price” and “asking price” (sometimes referred to as “current offer price”) in the context of quoted market prices, and the term “the bid-ask spread” to include only transaction costs. Other adjustments to arrive at fair value (e.g., for counterparty credit risk) are not included in the term “bid-ask spread.”~~

Active Market: Quoted Price

AG146. ~~A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm’s length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the end of the reporting period in that instrument (i.e., without modifying or repackaging the instrument) in the most advantageous active market to which the entity has immediate access. However, the entity adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure the financial asset or financial liability.~~

AG147. ~~The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. When current bid and asking prices are unavailable, the price of the~~

~~most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g., a change in the risk-free interest rate following the most recent price quote for a government bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. Similarly, if the entity can demonstrate that the last transaction price is not fair value (e.g., because it reflected the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. The fair value of a portfolio of financial instruments is the product of the number of units of the instrument and its quoted market price. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.~~

~~AG148. If a rate (rather than a price) is quoted in an active market, the entity uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the entity adjusts for those factors.~~

No Active Market: Valuation Technique

~~AG149. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.~~

~~AG150. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the instrument and (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.~~

~~AG151. Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased.~~

~~AG152. The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (i.e., similar remaining maturity, cash flow pattern, currency, credit risk, collateral~~

and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. If conditions have changed since the most recent market transaction, the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued.

AG153. The same information may not be available at each measurement date. For example, at the date that an entity makes a loan or acquires a debt instrument that is not actively traded, the entity has a transaction price that is also a market price. However, no new transaction information may be available at the next measurement date and, although the entity can determine the general level of market interest rates, it may not know what level of credit or other risk market participants would consider in pricing the instrument on that date. An entity may not have information from recent transactions to determine the appropriate credit spread over the basic interest rate to use in determining a discount rate for a present value computation. It would be reasonable to assume, in the absence of evidence to the contrary, that no changes have taken place in the spread that existed at the date the loan was made. However, the entity would be expected to make reasonable efforts to determine whether there is evidence that there has been a change in such factors. When evidence of a change exists, the entity would consider the effects of the change in determining the fair value of the financial instrument.

AG154. In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made.

Inputs to Valuation Techniques

AG155. An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others):

- (a) The time value of money (i.e., interest at the basic or risk-free rate). Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, an entity may use a well-accepted and readily observable general market rate, such as a swap rate, as the benchmark rate. (If the rate used is not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is determined on the basis of its credit risk in relation to the credit risk in this benchmark rate). In some countries, the central government's bonds may carry a significant credit risk and may not provide a stable benchmark basic interest rate for instruments denominated in that currency. Some entities in these countries may have a better credit standing and a lower borrowing rate than the central government. In such a case, basic interest rates may be more appropriately determined by

~~reference to interest rates for the highest rated corporate bonds issued in the currency of that jurisdiction.~~

- ~~(b) Credit risk. The effect on fair value of credit risk (i.e., the premium over the basic interest rate for credit risk) may be derived from observable market prices for traded instruments of different credit quality or from observable interest rates charged by lenders for loans of various credit ratings.~~
- ~~(c) Foreign currency exchange prices. Active currency exchange markets exist for most major currencies, and prices are quoted daily in financial publications.~~
- ~~(d) Commodity prices. There are observable market prices for many commodities.~~
- ~~(e) Equity prices. Prices (and indexes of prices) of traded equity instruments are readily observable in some markets. Present value based techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.~~
- ~~(f) Volatility (i.e., magnitude of future changes in price of the financial instrument or other item). Measures of the volatility of actively traded items can normally be reasonably estimated on the basis of historical market data or by using volatilities implied in current market prices.~~
- ~~(g) Prepayment risk and surrender risk. Expected prepayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data. (The fair value of a financial liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount—see paragraph 68).~~
- ~~(h) Servicing costs for a financial asset or a financial liability. Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial asset or financial liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables.~~

...

In Appendix C paragraphs C7 is amended to read as follows:

...

Appendix C: Extinguishing Financial Liabilities with Equity Instruments

This Appendix is an integral part of IPSAS 41.

...

Consensus

...

- C7. If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (e.g., a demand deposit), paragraph 43 68 of [draft] IPSAS [X] (ED XX), Fair Value Measurement IPSAS 41 is not applied.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 41.

...

Fair Value Measurement Considerations (~~Paragraphs 66–68~~)

IE177. Illustrative examples 23–26 demonstrate different valuation techniques for valuing unquoted equity instruments. When selecting an appropriate valuation technique, professional judgment is exercised in considering the requirements in [draft] IPSAS [X] (ED XX), *Fair Value Measurement* AG149–AG154.

...

Implementation Guidance

...

Section G Concessionary Loans and Non-Exchange Equity Transactions

G.1 Sequencing of “Solely Payments of Principal and Interest” Evaluation for a Concessionary Loan

If an entity issues a concessionary loan (financial asset) when does it assess classification for subsequent measurement purposes?

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a grant, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs 42–58 of IPSAS 23. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in [draft] IPSAS [X] (ED XX), *Fair Value Measurement* AG144–AG155**Error! Reference source not found..**

After initial recognition at fair value, an entity subsequently assesses the classification of concessionary loans in accordance with paragraphs 39–44 and measures concessionary loans in accordance with paragraphs 61–65.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED XX).

Introduction

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 41, *Financial Instruments*. As this Standard is based on IFRS 9, *Financial Instruments* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 41 departs from the main requirements of IFRS 9.
- BC2. Following the publication of IFRS 13, the IPSASB approved a project to develop fair value measurement requirements for the public sector. In developing [draft] IPSAS [X] (ED XX), *Fair Value Measurement*, the IPSASB had concluded that the economics fair value measurement were the same in both the public sector and the private sector. Consequently, the IPSASB initiated a project to converge its fair value measurement requirements with IFRS 13.
- BC3. The IPSASB's policy document, *Process for Reviewing and Modifying IASB Documents*, sets out the process the IPSASB follows when developing a converged Standard. The first step of the process is to consider whether there are any public sector issues that warrant departure from the IFRS Standard.
- BC4. In determining whether public sector issues warrant a departure from an IASB document, the IPSASB considers the following:
 - (a) Whether applying the requirements of the IASB document would mean that the objectives of public sector financial reporting would not be adequately met;
 - (b) Whether applying the requirements of the IASB document would mean that the qualitative characteristics of public sector financial reporting would not be adequately met; and
 - (c) Whether applying the requirements of the IASB document would require undue cost or effort.
- BC5. The process requires the IPSASB to take its decisions in the context of the following:
 - (a) Consistency with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*);
 - (b) Internal consistency with existing IPSASs; and
 - (c) Consistency with the statistical bases of accounting.

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, Recommended Practice Guidelines, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Public Sector Accounting Standards Board', 'International Public Sector Accounting Standards', 'Recommended Practice Guidelines', 'International Federation of Accountants', 'IPSASB', 'IPSAS', 'RPG', 'IFAC', the IPSASB logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © [Month and Year] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © [Month and Year] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

(Back cover)

This text is taken from IPSAS 16, *Investment Property*

Measurement after Recognition

Accounting Policy

39. With the exception noted in paragraph 43, an entity shall choose as its accounting policy either the fair value model in paragraphs 42–64 or the cost model in paragraph 65, and shall apply that policy to all of its investment property.
40. IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.
41. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Fair Value Model

42. After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 62.
43. When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 8, paragraph 39 is not elective; the fair value model shall be applied.
44. A gain or loss arising from a change in the fair value of investment property shall be recognized in surplus or deficit for the period in which it arises.
45. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.
46. An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.
47. The fair value of investment property shall reflect market conditions at the reporting date.
48. Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.
49. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows)

that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognized in the financial statements until a later date (e.g. periodic payments such as contingent rents).

50. Paragraph 34 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 42 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognized liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognized at fair value or at the present value of minimum lease payments, in accordance with paragraph 28 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 34 to fair value in accordance with paragraph 42 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.
51. The definition of fair value refers to “knowledgeable, willing parties”. In this context, “knowledgeable” means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.
52. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (e.g., a willing seller would not take into account the particular tax circumstances of the actual investment property owner).
53. The definition of fair value refers to an arm’s length transaction. An arm’s length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.
54. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.
55. In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:
 - (a) Current prices in an active market for properties of different nature, condition, or location (or subject to different lease or other contracts), adjusted to reflect those differences;
 - (b) Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
 - (c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence, such as current market rents for similar properties in the same location and

condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

56. In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.
57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (see paragraph 62).
58. Fair value differs from value in use, as defined in IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors, to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:
- (a) Additional value derived from the creation of a portfolio of properties in different locations;
 - (b) Synergies between investment property and other assets;
 - (c) Legal rights or legal restrictions that are specific only to the current owner; and
 - (d) Tax benefits or tax burdens that are specific to the current owner.
59. In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:
- (a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognized separately as property, plant, and equipment.
 - (b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.
 - (c) The fair value of investment property excludes prepaid or accrued operating lease revenue, because the entity recognizes it as a separate liability or asset.
 - (d) The fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized lease liability, to arrive at the carrying amount of the investment property using the fair value model.

- 60. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.
- 61. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized liabilities) will exceed the present value of the related cash receipts. An entity applies IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets to determine whether to recognize a liability and, if so, how to measure it.

Inability to Determine Fair Value Reliably

- 62. There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model in IPSAS 17. The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 until disposal of the investment property.
- 62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the cost model in accordance with IPSAS 17.
- 62B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be determined reliably.
- 63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the cost model in accordance with IPSAS 17, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.
- 64. If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.

Appendix D: Historical cost–application guidance

This Appendix is an integral part of IPSAS XX, Measurement.

[Guidance on historical cost will be included here. The guidance is expected to include guidance on, for example:

- Initial recognition and measurement where no historical information is held.]

Historical cost for an asset is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

Historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

This text is taken from IPSAS 16, *Investment Property*

Measurement at Recognition

26. Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).
27. Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.
28. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes, and other transaction costs.
29. [Deleted]
30. The cost of investment property is not increased by:
 - (a) Start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management);
 - (b) Operating losses incurred before the investment property achieves the planned level of occupancy; or
 - (c) Abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.
31. If payment for investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.
32. An investment property may be acquired through a non-exchange transaction. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.
33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial

recognition, to adopt either the fair value model (paragraphs 42–64) or the cost model (paragraph 65).

34. The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 28 of IPSAS 13, i.e., the asset shall be recognized at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognized as a liability in accordance with that same paragraph.
35. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 42–61. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.
36. One or more investment properties may be acquired in exchange for a nonmonetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
37. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:
 - (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
 - (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

38. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after Recognition

Cost Model

65. After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IPSAS 17's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

This text is taken from IPSAS 17, *Property, Plant, and Equipment*

Measurement at Recognition

26. An item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at its cost.
27. Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.
28. An item of property, plant, and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to a local government by a developer at no or nominal consideration, to enable the local government to develop parks, roads, and paths in the development. An asset may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.
29. For the purposes of this Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph 27, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 44, and the supporting commentary in paragraphs 45–50, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.

Elements of Cost

30. The cost of an item of property, plant, and equipment comprises:
- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
31. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in IPSAS 25, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant, and equipment;
 - (b) Costs of site preparation;
 - (c) Initial delivery and handling costs;
 - (d) Installation and assembly costs;

- (e) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
 - (f) Professional fees.
32. An entity applies IPSAS 12, Inventories, to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and IPSAS 17 are recognized and measured in accordance with IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.
33. Examples of costs that are not costs of an item of property, plant, and equipment are:
- (a) Costs of opening a new facility;
 - (b) Costs of introducing a new product or service (including costs of advertising and promotional activities);
 - (c) Costs of conducting business in a new location or with a new class of customers (including costs of staff training); and
 - (d) Administration and other general overhead costs.
34. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:
- (a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
 - (b) Initial operating losses, such as those incurred while demand for the item's output builds up; and
 - (c) Costs of relocating or reorganizing part or all of the entity's operations.
35. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.
36. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, Borrowing Costs, establishes criteria for the recognition

of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.

Measurement of Cost

37. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 27, its fair value at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5.
38. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
39. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
 - (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.
- For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.
40. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset, or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.
41. The cost of an item of property, plant, and equipment held by a lessee under a finance lease is determined in accordance with IPSAS 13.

Measurement after Recognition

Cost Model

43. After recognition as an asset, an item of property, plant, and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

This text is taken from IPSAS 31, *Intangible Assets*

31. An intangible asset shall be measured initially at cost in accordance with paragraphs 32–43. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

Separate Acquisition

32. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for separately acquired intangible assets.
33. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.
34. The cost of a separately acquired intangible asset comprises:
- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) Any directly attributable cost of preparing the asset for its intended use.
35. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in IPSAS 25) arising directly from bringing the asset to its working condition;
 - (b) Professional fees arising directly from bringing the asset to its working condition; and
 - (c) Costs of testing whether the asset is functioning properly.
36. Examples of expenditures that are not part of the cost of an intangible asset are:
- (a) Costs of introducing a new product or service (including costs of advertising and promotional activities);
 - (b) Costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training); and
 - (c) Administration and other general overhead costs.
37. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the

carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

- (a) Costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
 - (b) Initial operating deficits, such as those incurred while demand for the asset's output builds up.
38. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized immediately in surplus or deficit, and included in their respective classifications of revenue and expense.
39. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in IPSAS 5, Borrowing Costs.

Subsequent Expenditure on an Acquired In-process Research and Development Project

40. Research or development expenditure that:
- (a) Relates to an in-process research or development project acquired separately and recognized as an intangible asset; and
 - (b) Is incurred after the acquisition of that project;
- shall be accounted for in accordance with paragraphs 52–60.
41. Applying the requirements in paragraphs 52–60 means that subsequent expenditure on an in-process research or development project acquired separately and recognized as an intangible asset is:
- (a) Recognized as an expense when incurred if it is research expenditure;
 - (b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 55; and
 - (c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 55.

Intangible Assets Acquired through Non-Exchange Transactions

42. In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources. A private citizen, for example a Nobel Prize winner, may bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a non-exchange transaction.

43. Under these circumstances the cost of the item is its fair value at the date it is acquired. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph 74, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 74, and the supporting commentary in paragraphs 75–86 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

Cost of an Internally Generated Intangible Asset

63. The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29, and 55. Paragraph 70 prohibits reinstatement of expenditure previously recognized as an expense.
64. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:
- (a) Costs of materials and services used or consumed in generating the intangible asset;
 - (b) Costs of employee benefits (as defined in IPSAS 25) arising from the generation of the intangible asset;
 - (c) Fees to register a legal right; and
 - (d) Amortization of patents and licences that are used to generate the intangible asset.
- IPSAS 5 specifies criteria for the recognition of interest as an element of the cost of an asset that is a qualifying asset.
65. The following are not components of the cost of an internally generated intangible asset:
- (a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
 - (b) Identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance; and
 - (c) Expenditure on training staff to operate the asset.

Subsequent Measurement

Cost Model

73. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

Appendix E: Market value—application guidance

This Appendix is an integral part of IPSAS XX, Measurement.

[Guidance on market value will be included here.]

[The paragraphs below are taken from IPSAS 17, *Property, Plant and Equipment*. They provide an initial indication of what type of text could be included here. The track changes show how the Standard's wording was amended for inclusion in this appendix. Text from other IPSASs, when included in IPSAS, *Measurement*, will be removed from the originating Standard.]

Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

How to determine market value

Revaluation Model

44. After recognition as an asset, an item of property, plant, and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 54–56.
45. The fair-market value of items of property, plant and equipment is usually determined from market-based evidence by appraisal. The fair-market value of items of plant and equipment is usually their market value determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. For many assets, the fair-market value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles, and many types of plant and equipment. In many jurisdictions it may be possible to obtain market values for vehicles, plant and machinery from published sources (such as catalogues) without the need to commission a valuation.
- ~~46. For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets.~~
47. Where there is no active and liquid market for an item of property, If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair-market value of the-an item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair-market value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. ~~In the case of specialized buildings and other man-~~

~~made structures, fair value may be estimated using depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation, because of its significance to the community.~~

~~48. If there is no market-based evidence of fair value because of the specialized nature of the item of plant, and equipment, an entity may need to estimate fair value using, for example, reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.~~

49. The frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

50. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 54 and 55.

51. If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.

52. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- (a) Land;
- (b) Operational buildings;
- (c) Roads;
- (d) Machinery;

- (e) Electricity transmission networks;
 - (f) Ships;
 - (g) Aircraft;
 - (h) Specialist military equipment;
 - (i) Motor vehicles;
 - (j) Furniture and fixtures;
 - (k) Office equipment; and
 - (l) Oil rigs.
53. The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
54. If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.
55. If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.
56. Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.
57. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.
58. Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes.

Implementation Guidance

Frequency of Revaluation of Property, Plant, and Equipment

- IG1. Paragraph 44 of IPSAS 17 requires entities that adopt the revaluation model to measure assets at a revalued amount that does not differ significantly from that which would be determined using

fair value at the reporting date. Paragraph 49 of IPSAS 17 specifies that the frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the fair value as at reporting date.

- IG2. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's fair value and revalues the asset to that amount.
- IG3. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

- (a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;
- (b) Where a market exists for the assets of the entity, market values are different from their carrying amounts;
- (c) During the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

- (d) Evidence is available of obsolescence or physical damage of an asset;
 - (e) Significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and
 - (f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.
- IG4. The list in paragraph IG3 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current fair value as at the reporting date.

This text is taken from IPSAS 31, *Intangible Assets*

Subsequent Measurement

Revaluation Model

74. After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.
75. The revaluation model does not allow:
- (a) The revaluation of intangible assets that have not previously been recognized as assets; or
 - (b) The initial recognition of intangible assets at amounts other than cost.
76. The revaluation model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 63), the revaluation model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 42–43).
77. It is uncommon for an active market to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable homogeneous classes of licences or production quotas the entity has acquired from another entity. However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents, or trademarks, because each such asset is unique. Also, although intangible assets are bought and sold, contracts are negotiated between individual buyers and sellers, and transactions are relatively infrequent. For these reasons, the price paid for one asset may not provide sufficient evidence of the fair value of another. Moreover, prices are often not available to the public.
78. The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.
79. When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:
- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated amortization at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
 - (b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated amortization forms part of the increase or decrease in the carrying amount that is accounted for in accordance with paragraphs 84 and 85.

80. If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.
81. If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.
82. The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with IPSAS 21 or IPSAS 26, as appropriate.
83. If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.
84. If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognized in surplus or deficit.
85. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be recognized directly in net assets/equity to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognized directly in net assets/equity reduces the amount accumulated in net assets/equity under the heading of revaluation surplus.
86. The cumulative revaluation surplus included in net assets/equity may be transferred directly to accumulated surpluses or deficits when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset. However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between amortization based on the revalued carrying amount of the asset and amortization that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

- AG1. An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, provide electronic services, and sell services and products. A website designed for internal access may be used to store entity policies and details of users of a service, and search relevant information.
- AG2. The stages of a website's development can be described as follows:
 - (a) Planning—includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives, and selecting preferences;

- (b) Application and Infrastructure Development—includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications, and stress testing;
 - (c) Graphical Design Development—includes designing the appearance of web pages; and
 - (d) Content Development—includes creating, purchasing, preparing, and uploading information, either textual or graphical in nature, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.
- AG3. Once development of a website has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design, and content of the website.
- AG4. When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:
- (a) Whether the website is an internally generated intangible asset that is subject to the requirements of this Standard; and
 - (b) The appropriate accounting treatment of such expenditure.
- AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers, and Internet connections) of a website. Such expenditure is accounted for under IPSAS 17. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's website, the expenditure is recognized as an expense when the services are received.
- AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11 and IPSAS 12) or leases that fall within the scope of IPSAS 13. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Application Guidance. When a website is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.
- AG7. An entity's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of this Standard.
- AG8. A website arising from development is recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 28 of this Standard for recognition and initial measurement, an entity can satisfy the requirements in paragraph 55 of this Standard. In particular, an entity may be able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits or service potential in accordance with paragraph 55(d) of this Standard when, for example, the website is capable of generating revenues, including direct revenues from enabling orders to be placed, or providing services using the website, rather than at a physical location using civil servants. An entity is not able to demonstrate how a website developed solely or primarily for promoting and advertising its own services and products will generate probable future economic benefits or service potential, and consequently all expenditure on developing such a website is recognized as an expense when incurred.

AG9. Any internal expenditure on the development and operation of an entity's own website is accounted for in accordance with this Standard. The nature of each activity for which expenditure is incurred (e.g., training employees and maintaining the website) and the website's stage of development or post-development are evaluated to determine the appropriate accounting treatment (additional guidance is provided in the table included at the end of the Illustrative Examples). For example:

- (a) The Planning stage is similar in nature to the research phase in paragraphs 52–54 of this Standard. Expenditure incurred in this stage is recognized as an expense when it is incurred;
- (b) The Application and Infrastructure Development stage, the Graphical Design stage, and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own services and products, are similar in nature to the development phase in paragraphs 55–62 of this Standard. Expenditure incurred in these stages is included in the cost of a website recognized as an intangible asset in accordance with paragraph AG8 when the expenditure can be directly attributed and is necessary to creating, producing or preparing the website for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own services and products) specifically for a website, or expenditure to enable use of the content (e.g., a fee for acquiring a license to reproduce) on the website, is included in the cost of development when this condition is met. However, in accordance with paragraph 83 of this Standard, expenditure on an intangible item that was initially recognized as an expense in previous financial statements is not recognized as part of the cost of an intangible asset at a later date (e.g., if the costs of a copyright have been fully amortized, and the content is subsequently provided on a website);
- (c) Expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products), is recognized as an expense when incurred in accordance with paragraph 67(c) of this Standard. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure is recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the website; and
- (d) The Operating stage begins once development of a website is complete. Expenditure incurred in this stage is recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 28 of this Standard.

AG10. A website that is recognized as an intangible asset under paragraph AG8 of this Application Guidance is measured after initial recognition by applying the requirements of paragraphs 71–86 of this Standard. The best estimate of a website's useful life should be short, as described in paragraph 91.

AG11. The guidance in paragraphs AG1–AG10 does not specifically apply to software development costs. However, an entity may apply the principles in these paragraphs.

Appendix F: Net selling price—application guidance

This Appendix is an integral part of IPSAS XX, Measurement.

[Guidance on net selling price will be included here.]

Net selling price is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

Appendix G: Replacement cost–application guidance

This Appendix is an integral part of IPSAS XX, Measurement.

[Guidance on replacement cost will be included here.] It is expected to include guidance on, for example:

- Infrastructure assets
- Military assets
- Heritage assets.]

[The paragraphs below are taken from IPSAS 17, *Property, Plant and Equipment*. They provide an initial indication of what type of text could be included here. The track changes show how the Standard's wording was amended for inclusion in this appendix. Text from other IPSASs, when included in IPSAS, *Measurement*, will be removed from the originating Standard.]

Replacement cost is the optimized depreciated replacement cost of an asset.

[Replacement cost for specialized assets]

47 ~~If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available.~~ In the case of specialized buildings and other man-made structures, ~~fair~~their value may be estimated using ~~depreciated~~ replacement cost, which may involve determining or the asset's restoration cost or use of the service units approaches ~~(see IPSAS 21).~~ (IPSAS 21 explains that, under the service units approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.) In many cases, the ~~depreciated~~ replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation, because of its significance to the community.

48. ~~If there is no market-based evidence of fair value because of the specialized nature of the item of plant, and equipment, an entity may need to estimate fair value using, for example, reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21).~~ The ~~depreciated~~ replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED XX)

Introduction

The purpose of measurement in public sector financial statements

BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities that users' need for accountability and decision-making. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as:

- (a) Whether the entity provided its services to constituents in an efficient and effective manner;
- (b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
- (c) To what extent the burden on future-year taxpayers of paying for current services has changed; and
- (d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

Service delivery objective and public sector assets and liabilities

BC2. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, in the public sector the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities is specialized—for example, roads and military assets. There may be a limited market for specialized assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.

BC3. Another common feature of public sector assets is that they have restrictions on their use, which need to be taken into account when measurement aims to derive a value that reflects existing use. Measurement issues arise even where there are no restrictions and the aim is to reflect an asset's highest and best use.

BC4. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.

BC5. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to

programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation.

Measurement of assets and liabilities for financial reporting by public sector entities

BC6. Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In developing Chapter 7 the IPSASB took into account the special characteristics of the public sector, the needs of users, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.

BC7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.

BC8. The objective of measurement and the measurement bases in Chapter 7 of the Conceptual Framework address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows. The objective of measurement is:

To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC9. The measurement bases identified in Chapter 7 are: historical cost, market value, replacement cost, net selling price, and value in use, for assets; and, historical cost, cost of fulfillment, market value, cost of release, and assumption price, for liabilities.

Fair Value in IPSAS and IFRS 13, Fair Value Measurement

BC10. Fair value is a specified measurement basis in many IPSASs. The Conceptual Framework does not include fair value as a measurement basis, although its definition of "market value" is the same as the current IPSAS definition of "fair value," which is either an entry value or an exit value.

BC11. The IPSASB decided not to include fair value in the Conceptual Framework because:

- (a) Fair value is similar to market value and the inclusion of both measurement bases could be confusing to users of financial statements; and
- (b) The IFRS 13, *Fair Value Measurement*, approach to fair value (see below) raises the following issues:
 - (i) In the public sector many assets are specialized and differences in entry and exit prices are therefore significant. Where an asset will provide future services or economic benefits with a greater value than the asset's exit price, a measure reflecting exit values is not the most relevant basis.

- (ii) Fair value in IFRS 13 is, in the IPSASB's view, a model to represent a specific measurement outcome rather than a measurement basis.
- (iii) In the Conceptual Framework replacement cost is a measurement basis in its own right, rather than a valuation technique to determine fair value.
- (iv) The relevance of fair value in the public sector is likely to be primarily limited to providing information on financial capacity, rather than operating capacity and the cost of services.

BC12. The International Accounting Standards Board (IASB) issued IFRS 13, *Fair Value Measurement*, in 2011. IFRS 13 defines fair value as an exit value and establishes an approach to fair value measurement involving a hierarchy of inputs and use of measures derived from information about market values, costs and income. When the IPSASB decided against including fair value in the Conceptual Framework it noted, nonetheless, that there could be further work carried out at standards level to explain how the measurement bases in the Conceptual Framework align with IFRS 13's approach to fair value.

BC13. During development of the draft Standard accompanying this CP, the IPSASB decided:

- (a) To apply a rebuttable presumption that IPSAS references to fair value would need revision for better alignment with the Conceptual Framework;
- (b) There would be scope to use fair value for some types of assets and liabilities and in some situations; and
- (c) Where fair value measurement is applied, the meaning of fair value should be consistent with the meaning in IFRS 13.

Objective (paragraph 1)

BC14. ED XX's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which particular measurement bases should be used in IPSASs. The ED's objective refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.

Scope and definitions (paragraphs 2–3)

BC15. ED XX's scope conveys that the Standard's definitions of measurement bases and related application guidance applies when another IPSAS requires measurement using one of the defined measurement bases.

Subsequent Measurement

Depreciation and amortization

BC16. Depreciation is a charge for the consumption of an asset over its useful life. ED XX does not address depreciation. Requirements and guidance on depreciation are provided at standards-level. For example, IPSAS 17, *Property, Plant and Equipment*, addresses:

- (a) The unit of account for depreciation,
- (b) The recognition of depreciation,

- (c) The point at which depreciation of an asset begins,
- (d) The relationship between economic and useful lives,
- (e) The circumstances under which land may be depreciated,
- (f) Depreciation methods, and
- (g) The relationship between the revenue generated by an asset and depreciation.

BC17. Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level. ED XX does not address amortization. IPSAS 31, *Intangible Assets*, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.

BC18. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example IPSAS 17 requires that assets on the revaluation model with useful lives are depreciated. IPSAS 16, *Investment Property*, does not require depreciation of an investment property that is measured in accordance with the fair value model subsequent to initial recognition. IPSAS 31 does not permit amortization of an asset that is classified as held for sale.

Use of the historical cost model or revaluation model

BC19. The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB discussed whether ED, *Measurement*, should consider the options for measurement subsequent to initial recognition in existing IPSAS with a view to eliminating or reducing those options.

BC20. The IPSASB noted that Chapter Seven of the Conceptual Framework provides a measurement objective:

To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making processes.

BC21. The Conceptual Framework goes on to state that it is not possible to identify a single measurement basis that best meets the measurement objective and acknowledges both historical cost and current value measurements.

BC22. The IPSASB concluded that:

- (a) It would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and that
- (b) Such a step would be outside the scope of this ED which is to provide requirements and guidance on the definitions and application of measurement bases, rather than to specify where they should be used. The latter is a decision for individual standards.

BC23. A decision on whether to use historical cost or current value for measurement subsequent to initial recognition is likely to be made by regulator(s) in a particular jurisdiction. The Basis for Conclusions notes that many respondents to the Conceptual Framework Consultation Paper and ED on Measurement advocated the continued widespread use of historical cost, mostly in combination with other measurement bases. Supporters of historical cost referenced the

accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.

- BC24. Conversely those who supported current values, and adopted a view that historical cost should be used as a proxy for current value, linked this view to both decision-making and accountability, arguing that the cost of service provision should reflect the value should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price. Some of these views may inform the decisions of regulators.

Application guidance

[Text in the Basis for Conclusions to be determined.]

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, Recommended Practice Guidelines, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Public Sector Accounting Standards Board', 'International Public Sector Accounting Standards', 'Recommended Practice Guidelines', 'International Federation of Accountants', 'IPSASB', 'IPSAS', 'RPG', 'IFAC', the IPSASB logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © January 2019 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © January 2019 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*