

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: June 23–26, 2020

Agenda Item 6

For:

- ☐ Approval
☒ Discussion
☐ Information

CONCEPTUAL FRAMEWORK-LIMITED SCOPE UPDATE

Project summary	The project objective is to update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility and prevalence, with a particular emphasis on the first three of these criteria.	
Meeting objectives	Topic	Agenda Item
Project management	Limited Scope Update of Conceptual Framework – Project Roadmap	6.1.1
	Instructions up to Previous Meeting	6.1.2
	Decisions up to Previous Meeting	6.1.3
Decisions required at this meeting	Overview of Q2 2020 CF-LSU and Measurement Issues	6.2.1
	Approval of Measurement Hierarchy	6.2.2
	Fair Value & Market Value – Should Market Value be a Measurement Basis?	6.2.3
	What are the Measurement Bases to be Defined in the Conceptual Framework?	6.2.4
	Replacement Cost as a Measurement Basis or a Measurement Technique	6.2.5
	Value in Use as a Measurement Basis or Measurement Technique	6.2.6
	Synergistic and Equitable Value	6.2.7
	The Usefulness of the Distinction Between Entry and Exit Values	6.2.8
Other supporting items	High-level Comparison of IPSASB and IASB Conceptual Frameworks	6.3.1
	Basis for Conclusions: Reasons for Amending Conceptual Framework	6.3.2

**CONCEPTUAL FRAMEWORK-LIMITED SCOPE UPDATE:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2020	1. Approval of Limited Scope Update of Conceptual Framework Project Brief
June 2020	1. Discussion of Issues
September 2020	1. Discussion of Issues 2. Discuss proposed consequential amendments 3. Review [draft] Exposure Draft
December 2020	1. Approve ED ¹

¹ A decision on the number of EDs will be made in September.

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
March 2020	Provide a high-level comparison between the IPSASB Framework and the IASB Framework.	1. Included as Supporting Documents 1 at Agenda Item 6.3.1 .
March 2020	Appoint Board Member Sponsor.	2. Ian Carruthers appointed.
March 2020	Assess the appropriate number of Exposure Drafts and timing of publication, in context of expected staff / Board time, progress, and need to coordinate with Measurement-related project package and constituent focus / workload.	3. See Agenda Item 5 – ED 74 & ED 75 Coordination of Cross-Cutting Issues <ul style="list-style-type: none"> a. Agenda Item 5.2.1 Paragraph 8 b. Agenda Item 5.2.2 4. Staff recommend 2 EDs be developed for CF-LSU. Phase 1, related to measurement should be approved in December 2020 and Phase 2 should be started in H1 2021.
March 2020	Ensure that communications emphasize the limited scope of the project.	5. March eNews emphasized this. There will be ongoing communication.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
March 2020	1. Approve the project brief and outline subject to drafting and editorial amendments including making the brief less measurement-centric and considering the change of terminology from cost of fulfilment to fulfillment value in Key Issue #2.	1. Draft paragraphs at Agenda Item 6.3.2.

Overview of Q2 2020 CF-LSU and Measurement Issues

Purpose

1. To summarize the issues addressed during Q2 2020 across the Conceptual Framework – Limited-Scope Update (CF-LSU) and Measurement projects.

Background

2. In March 2020 the Board agreed to implement a coordinated approach to develop EDs for:
 - Measurement;
 - Property, Plant and Equipment (Updated IPSAS 17); and
 - CF-LSU.
3. The Board instructed staff to coordinate the development of the related EDs and manage cross-cutting issues.

Analysis

4. The following table summarizes where issues addressed in Q2 2020 related to the CF-LSU and Measurement projects are in the suite of agenda papers.

Issues Paper	Theme of Paper	Agenda Paper
Approval of Measurement Hierarchy Staff presenter – John Stanford	Model	Agenda Item 6.2.2
Fair Value & Market Value – Should Market Value be a Measurement Basis? Staff presenter – John Stanford	Bases	Agenda Item 6.2.3
What are the Measurement Bases to be Defined in the Conceptual Framework? Staff presenter – John Stanford		Agenda Item 6.2.4
Replacement Cost as a Measurement Basis or a Measurement Technique Staff presenter – Dave Warren		Agenda Item 6.2.5
Value in Use as a Measurement Basis or Measurement Technique Staff presenter – John Stanford		Agenda Item 6.2.6
Synergistic and Equitable Value Staff presenter – Dave Warren		Agenda Item 6.2.7
The Usefulness of the Distinction Between Entry and Exit Values Staff presenter – John Stanford		Agenda Item 6.2.8
Measurement Guidance: Placement Staff presenter – Dave Warren	Location of guidance	Agenda Item 7.2.2

Agenda Item 6.2.1

Issues Paper	Theme of Paper	Agenda Paper
Applying IFRS 13 FV Throughout IPSAS Staff presenter – Eileen Zhou	Application of Measurement Principles	Agenda Item 7.2.3
Analysis of Responses (Improvements to Measurement Bases Guidance) Staff presenter – Dave Warren		Agenda Item 7.2.4 – 7.2.7
Amendments to IPSAS 5, <i>Borrowing Costs</i> Staff presenter – Dave Warren		Agenda Item 7.2.8

5. Many of the agenda items have been reviewed by the CF-LSU Board Member Sponsor and Measurement Task Force. When this occurred, the recommendation was elevated from staff recommendation to task force or Board Member Sponsor recommendation. Agenda Items without a Task Force/Board Member Sponsor recommendation were not reviewed by the Task Force/Board Member Sponsor due to the number of issues addressed. Staff selected Agenda Items for Task Force review based on the complexity of the issue, IPSASB instruction and when the issue was addressed.

Approval of Measurement Hierarchy

Question

1. Does the IPSASB approve the measurement hierarchy for the revised Chapter 7 of the of the Conceptual Framework Limited Scope Update and Exposure Draft (ED), *Measurement*?

Recommendation

2. Staff and the Board Member Sponsor recommend that the IPSASB adopts the proposed measurement hierarchy set out in Figure 1.

Background

3. Key Issue #2 in the project brief approved in March 2020 indicates that the IPSASB will consider the impact of the revised Measurement chapter in the IASB Conceptual Framework (the IASB Framework), which was finalized after approval and publication of the IPSASB Conceptual Framework (IPSASB Framework). The IASB Framework includes a measurement hierarchy. The current IPSASB Framework does not have such a hierarchy.

Analysis

4. Chapter 7 of the *Conceptual Framework for Financial Reporting by Public Sector Entities* does not explicitly distinguish measurement levels. It has main headings for 'Measurement Bases for Assets' and 'Measurement Bases for Liabilities'. The IASB's *Conceptual Framework for Financial Reporting* distinguishes three different measurement levels:
 - (a) Measures or Categories of Measurement Bases (latter used in Basis for Conclusions)
 - (b) Measurement Bases
 - (c) Measurement Techniques
5. Staff and the Board Member Sponsor think that distinguishing different levels, and building on the IASB's approach, will bring clarity to the development of measurement requirements and guidance. Because the distinction between measures and measurement bases might be ambiguous the following three levels are proposed for the IPSASB Framework and the draft IPSAS, *Measurement*:
 - (a) Measurement Models
 - (b) Measurement Bases
 - (c) Measurement Techniques
6. **Measurement Models** are the approaches to the presentation of assets or liabilities.

Under the historical cost model assets and liabilities are presented at historically based amounts, which are derived from the actual or estimated price of the transaction or event that gave rise to them. Changes in value due to market conditions are not reflected, except for impairments for assets and where an obligation becomes onerous for liabilities. Under the current value model assets and liabilities are presented using information updated to reflect market conditions at the reporting date. The selection of the measurement model might be determined at a jurisdictional level.
7. **Measurement Bases** provide the most relevant and faithfully representative information under the model selected.

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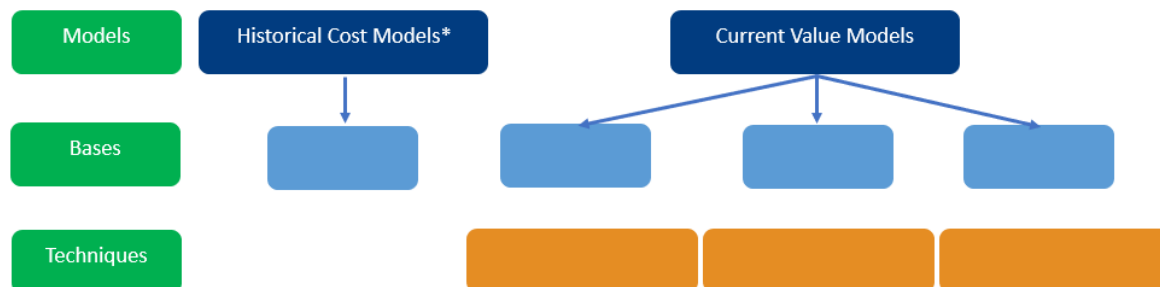
At initial recognition, a historical cost amount and a current value amount are likely to be the same. There may be cases where IPSASB specifies that a current value measurement basis is required under the historical cost model and where a historical cost measurement basis provides an adequate proxy for a current value amount under the current value model. Under the current value model selection of a measurement basis will depend on whether an asset is held for operational capacity or financial capacity and, for a liability, whether the timing and amount of settlement is certain at the measurement date.

8. **Measurement Techniques** are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis.

The determination and selection of measurement techniques depend on factors such as the availability of observable data.

9. The approach is illustrated below:

Figure 1 – Levels of Measurement (Models)



10. The revised IPSASB Framework chapter will discuss the top two levels, providing definitions of the main measurement bases under both models. The revised IPSASB Framework will provide a rationale for measurement techniques without going into detail on specific techniques. The ED, *Measurement*, will discuss measurement techniques in more detail and provide draft application guidance. Staff consider that the approach outlined in this paper is consistent with the IASB's approach, while reflecting the public sector context, and responds to the view of the Consultative Advisory Group that the IPSASB should use terminology consistent with that of the IASB to the greatest extent possible.

Decision Required

11. Does the IPSASB approve the staff and Board and Member Sponsor recommendation in paragraph 2?

Fair Value and Market Value – Should Market Value be a Measurement Basis?

Question

1. Is it necessary to define market value as a measurement basis for assets and liabilities in the Conceptual Framework (the IPSASB Framework)?

Recommendation

2. Staff and the Board Member Sponsor recommend that market value should be a measurement technique (Level Three) for current cost and not a measurement basis (Level Two).

Background

3. Key Issue #4 in the project brief indicated that the project would seek to clarify the relationship between fair value and market value in light of the decision to define fair value in both the IPSASB Framework and in ED, *Measurement*.

Analysis

4. IFRS 13, *Fair Value Measurement*, issued in 2011, introduced a revised definition of fair value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date.
5. Fair value is one of the measurement bases included in the IASB Conceptual Framework with the same definition as in IFRS 13. The IPSASB Framework does not include fair value as a measurement basis. It includes separate, but related, definitions of market value for assets and liabilities:

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

Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.
6. These definitions were the pre-IFRS 13 IASB definitions of fair value. For assets this is the definition of fair value in the IPSASB's current standards-level literature. Agenda Item 7.2.3 considers the appropriateness of the revised definition of fair value at standards level.
7. The Consultation Paper (CP), *Measurement*, proposed fair value as defined in IFRS 13 as one of the Measurement bases which will be defined and for which application guidance will be included in ED, *Measurement*. This was supported strongly by respondents.
8. Because of the need to align ED, *Measurement*, and the Measurement Chapter of the Conceptual Framework, fair value will be defined in the Conceptual Framework in the same way as ED, *Measurement*; i.e., the definition drawn from IFRS 13 **not** the definition in the current standards-level literature. This is also in accordance with the view of the Consultative Advisory Group that the IPSASB use of terminology should be consistent with that of IASB. Agenda Item 7.2.3 considers the appropriateness of the revised definition of fair value at standards level.

Market Value in Government Finance Statistics Manual

9. The 'general rule' in the Government Finance Statistics Manual 2014 (GFSM) is that all flows and stocks should be measured at market prices. Market prices refer to current exchange value – that is,

the value at which goods, services, labor or assets are exchanged or else could be exchanged for cash (currency or transferable deposits).

10. Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers: the exchanges are made between independent parties and, on the basis of commercial considerations only, sometimes called “at arm’s length”.
11. The GFSM defines fair value and treats it as a measurement comparator. Fair value is “a market-equivalent value defined as an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction. It thus represents an estimate of what could be obtained if the owner sold the asset or the debtor sold the liability.” The glossary in Consultation Paper (CP), *Measurement*, states that the definitions of fair value and market value are aligned in the GFSM and the Conceptual Framework and in International Valuation Standards 2017.
12. The IPSASB Framework expresses a view that the usefulness of market values is more questionable if an assumption that markets are not open, active, and orderly does not hold. The GFSM does not include this reservation. The pervasive use of market prices in the GFSM Framework and the IPSASB’s Framework’s emphasis on the importance of open, active, and orderly markets in its analysis of market value are probably the main differences between the GFSM and the IPSASB Framework.
13. Staff concludes that not defining market value as a measurement basis in the Conceptual Framework and at standards-level will not widen differences with GFSM as GFSM does not place the same emphasis on open, active, and orderly markets as the current IPSASB Framework. In addition, market value is to be included as a measurement technique for current cost and, as the market approach, as a measurement technique for fair value. Market-based mechanisms will therefore be prominent in IPSASB’s literature.

The Valuation Profession Perspective and Practical Outcomes

14. The definition of market value of the International Valuation Standards Council is:

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.
15. As noted above the Appendix in CP, *Elements*, expresses a view that this definition aligns with the definition of market value in the Framework.
16. The next stage of the analysis is to consider whether from a valuation perspective, and therefore a practical perspective, there is a difference between market value and fair value. The response of Valuology² to CP, *Measurement* highlighted a statement in International Valuation Standard 300, *Valuations for Financial Reporting*, that for most practical purposes Market Value under IVS would meet the requirements of Fair Value under IFRS 13. The only significant difference identified is the

² Valuology is a consultancy owned by a former Technical Director and Chief Executive of the International Valuation Standards Council.

requirement in IFRS 13 to ignore “blockage factors”.³ Staff consider “blockage factors” a standards-level issue. The IFRS 13 guidance on blockage factors is included in IPSAS 41, *Financial Statements*.

17. Some valuers have a view that some accountants do perceive a practical difference between market value and fair value. This can create communication problems, because accountants expect that an instruction to apply market value will result in a different outcome than fair value.

Balancing the arguments

18. Staff does not advocate defining market value as a measurement basis for two reasons. First, from a practical perspective market value does not appear to lead to a different outcome than fair value and defining both market value and fair value may lead to misunderstandings between accountants and valuers. Second, any divergence from Government Finance Statistics is minimized by the continued use of market-based mechanisms as measurement techniques.
19. Staff notes that some respondents to CP, *Measurement*, expressed a view that market value might be relevant for transfer revenue. Staff consider that fulfillment value is likely to provide the most relevant and faithfully representative information for both transfer providers and transfer recipients. Staff concludes that market value should be a measurement technique for assets (Level 3) and not a measurement basis (Level 2).
20. The introduction of fair value, as defined in IFRS 13, provides a non-entity specific, exit value measurement basis under the current value model. Therefore, there is no obvious case for retaining market value as measurement basis for a liability.

Decision Required

21. Does the IPSASB agree with the staff and Board Member Sponsor recommendation at paragraph 2?

³ A blockage factor adjusts the quoted price of an asset or a liability because the market’s normal trading volume is not sufficient to absorb the quantity held by the entity”.

What are the Measurement Bases that should be defined in the Framework?

Question

1. Do you agree with the measurement bases proposed for the revised Measurement Chapter and the approach for determining whether further measurement bases should be defined?

Recommendation

2. Staff and the Board Member Sponsor recommend that the following measurement bases should be defined in the IPSASB Conceptual Framework (IPSASB Framework):
 - (a) Historical Cost
 - (b) Fair Value
 - (c) Fulfillment Value; and
 - (d) Current Cost
3. The Measurement Task Force and the Board Member Sponsor further recommend that consideration be given to the inclusion of net selling price (assets) and cost of release (liabilities) in September. The implicit recommendation not to define value in use is based on analysis in [Agenda Item 6.2.6](#) and the future approach is dependent on the Board decision on that agenda Item. The implications of adopting the term and definition of fulfillment value rather than cost of fulfillment will be considered further in September.

Background

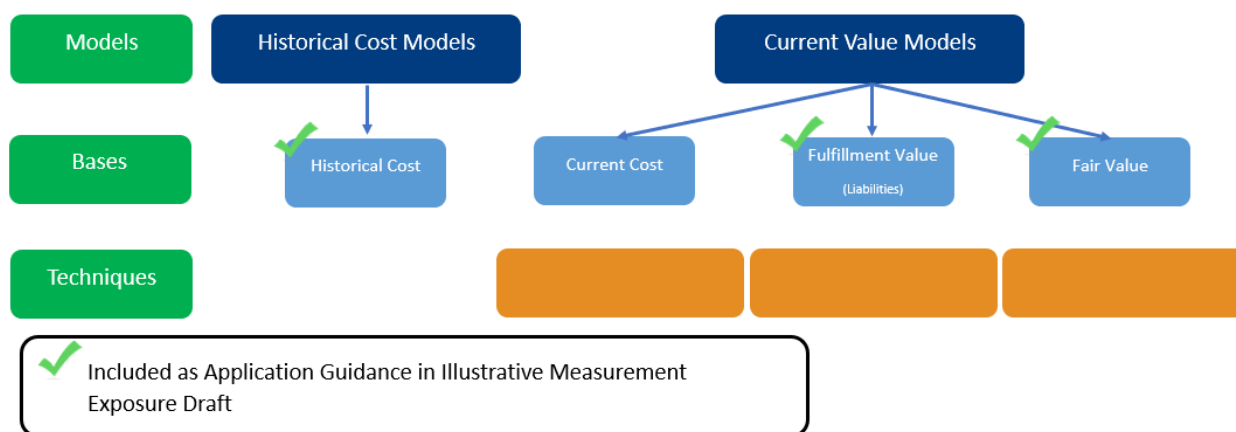
4. Key Issue # 2 in the project brief indicates that the IPSASB will consider the impact of the revised Measurement chapter in the IASB Conceptual Framework (IASB Framework), which was finalized after approval and publication of the IPSASB Framework. The project therefore has reviewed the measurement bases in the IPSASB Framework in light of the measurement bases in the IASB Framework.

Analysis

5. Currently the IPSASB Framework identifies and defines the following measurement bases for assets:
 - (a) Market Value
 - (b) Replacement Cost
 - (c) Net Selling Price; and
 - (d) Value in use
6. Currently the IPSASB Framework identifies and defines the following measurement bases for liabilities:
 - (a) Cost of Fulfillment
 - (b) Cost of Release
 - (c) Assumption Price; and
 - (d) Market Value

7. The IASB Framework identifies and describes:
 - (a) Fair value
 - (b) Current cost
 - (c) Value in Use for Assets and Fulfillment Value for Liabilities
8. The measurement bases proposed in the IPSASB Framework are illustrated in the diagram below, which builds on the diagram in [Agenda Item 6.2.2](#). They are then described in subsequent paragraphs.

Figure 2 – Levels of Measurement (Models/Bases)



9. **Historical cost** is the consideration given to acquire or develop an asset (received to assume an obligation), which is the cash or cash equivalents, or the value of other consideration given, at the time of its acquisition or development (the liability is incurred).
10. Under the historical cost measurement basis assets are initially recognized at their cost of acquisition and liabilities at the amount of the incurred obligation. Under the historical cost measurement basis assets are not changed to reflect price changes, except, as indicated in [Agenda Item 6.2.2](#) for impairments. Initial measures of liabilities may be adjusted to reflect factors such as the accrual of interest on the financing component of the liability and fulfillment of part or all of the liability.
11. **Current cost of an asset** is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date.

Current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date.

Current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received for incurring an equivalent liability. Because it is an entry value, transaction costs are reflected in the amount. Current cost is relevant to assets held for their operational capacity. Staff has reservations whether it is necessary to define current cost for a liability as the circumstances where such an entity-specific measurement basis would be used in a public sector context are rare. For similar reasons staff does not think it necessary

to retain assumption price, which is a current value measurement basis for a liability in the current IPSASB Framework. Assumption price is defined as the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

12. **Fair value** is as defined in [Agenda Item 6.2.2](#): *The price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date.*

Fair value provides relevant and faithfully representative information where the measurement basis that best meets the measurement objective⁴ reflects the price *The price that would be received to sell an asset or paid to transfer a liability* in an active open and orderly market. Fair value is a non-entity specific measure.

13. **Fulfillment value** is as defined in the IASB Framework: *the present value of the cash or other economic resources that an entity expects to transfer as it fulfills a liability.*

This is similar to cost of fulfillment in the IPSASB's current Framework: *the cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.* In fact, the illustrative ED in CP, *Measurement*, used the same definition as in the IPSASB Framework, but labelled it 'fulfillment value'.

The implications of adopting the term fulfillment value with its revised definition will be considered further in September. Some respondents to CP, *Measurement*, highlighted that fulfillment value in the IASB Framework includes a risk adjustment, whereas cost of fulfillment in the IPSASB Framework is silent on this issue. Such respondents therefore suggested that defining the term fulfillment value is more than a change of terminology and will have a substantive impact with standards-level implications.

14. Given the concepts developed in the CF are the basis for developing IPSAS, the measurement bases identified and defined in IPSAS, *Measurement* will be aligned with the CF. The CF underpins the development of IPSAS. A strong CF captures concepts that are applied consistently at Standards level. Alignment, in part, is the reason the CF-Limited Scope Review project was approved.
15. Based on the analysis performed, staff consider the measurement bases identified to be applicable in the public sector. Informed by the ongoing work related to the Non-Current Assets Held for Sale project, staff will augment the current analysis and recommend whether net selling price should be included as a measurement basis in September. Staff will also consider whether cost of release should be included as a measurement basis.

Decision Required

16. Does the IPSASB agree with the Staff and the Board Member Sponsor recommendation in paragraphs 2 and 3?

⁴ 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*

Replacement Cost as a Measurement Basis or a Measurement Technique

Question

1. Does the IPSASB agree replacement cost should be classified as a measurement technique?

Recommendation

2. The Measurement Task Force recommends the CF-LSU proposals on measurement models, measurement bases and measurement techniques be applied, and replacement cost be classified as a measurement technique.

Background

3. In CP, *Measurement*, replacement cost is identified as a measurement basis, with Application Guidance set out in an appendix (D) to the Illustrative ED. The CP also identifies replacement cost as a technique under the Fair Value basis (appendix A to the Illustrative ED). Some respondents questioned whether replacement cost could be both a basis and a technique.
4. At its March meeting, the IPSASB instructed its Task Force to develop a recommendation on how to resolve this inconsistency.

Analysis

5. The CF-LSU project proposed definitions for measurement bases and measurement techniques (see [Agenda Item 6.2.2](#) for analysis).

- a. **Measurement Bases.** Provide the most relevant and faithfully representative information under the model selected.

Bases are a way to present the model depending on the informational needs of the financial statement user. For example, both fair value and current cost provide current value information, but provide different information:

- i. Fair value is the amount that would be received at the measurement date to sell an asset; while
- ii. Current cost is the amount for which an equivalent item could be acquired or created at the measurement date.

- b. **Measurement Techniques.** Methods to estimate the amount at which an asset or liability is presented under the selected measurement basis.

Measurement techniques are methods to estimate amounts under the selected measurement basis. They are purely calculations and the selection of a technique will depend on the information available – for example, directly observable market data or cash flows associated attributable to the item being measured.

Market value is a measurement technique that uses prices generated by market transactions involving identical or similar items. Applying the market value technique to estimate a measurement basis requires considering the specific requirements of that basis:

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- i. Fair value is the amount received to sell an asset. Applying the market approach to this basis requires deriving prices from an open and active market as they relate to the highest and best use of the asset
 - ii. Current cost is the amount an equivalent asset could be acquired or created. Applying the market approach to this basis requires deriving prices from a market as they relate to the service capacity of the asset being valued.
- 6. Replacement cost is a measurement technique because it is an approach applied to measure an asset or liability depending on the data available to the financial statement preparer. Replacement cost is a calculation. It does not consider the measurement objective of the preparers of financial statements and can be used to estimate several measurement bases.
- 7. Replacement cost is not a measurement basis because it does not present monetary / quantitative information for an asset or liability. It considers how to estimate monetary / quantitative information. This is consistent with:
 - a. **Fair Value Guidance in Consultation Paper.** In CP, *Measurement*, fair value was proposed as a measurement basis. The AG includes guidance on techniques to estimate FV which include a market approach, income approach and cost approach (replacement cost).
 - b. **IPSASB guidance.** Replacement cost is used in IPSAS 17, Property, Plant and Equipment, and IPSAS 33, First-Time Adoption of Accrual Basis IPSAS.
 - (i) **IPSAS 17.** Replacement cost is a permitted technique to estimate fair value when applying the revaluation model (paragraph 47 and 48 – existing terminology); and
 - (ii) **IPSAS 33.** Replacement cost is a permitted technique to estimate deemed cost (paragraph 70).
 - c. **IASB framework.** Replacement cost is not identified as a measurement basis in its framework. As the cost approach, it is one of three techniques for estimating fair value.
- 8. While CP, *Measurement*, identified replacement cost as a measurement basis and proposed separate Application Guidance (AG), the IPSASB's work will not be discarded. The existing replacement cost AG will be incorporated into the AG for the measurement bases for which it is an estimation technique.

Decision Required

- 9. Does the IPSASB agree with the Task Force's recommendation?

Value in Use as a Measurement Basis or Measurement Technique

Question

1. Is value in use (VIU) a measurement basis or a measurement technique?

Recommendations

2. Staff and the Board Member Sponsor recommend that in a cash-generating context, VIU is a measurement technique for determining whether carrying amounts determined under selected measurement bases are recoverable, rather than a measurement basis. In a non-cash-generating context it is neither a measurement basis nor a measurement technique as its operationalization relies on another technique (replacement cost).
3. Staff should undertake more detailed analysis before the September meeting on whether VIU is the same in practice as other measurement techniques as part of the development of the Measurement ED.

Background

4. The issue of VIU is addressed because it is important that the chapter of the Conceptual Framework and ED, Measurement, are aligned as to which methods are bases or techniques given the use of VIU in the impairment standards, IPSAS 21, *Impairment of Non-Cash Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

Analysis

VIU in the IPSASB Conceptual Framework

5. VIU is one of the measurement bases for assets defined in the IPSASB Conceptual Framework (IPSASB Framework):

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.

6. The inclusion of service potential in the definition reflects the service delivery objective of entities for which the IPSASB is developing standards. It is similar to the inclusion of service potential in the definition of an asset and a liability.
7. The IPSASB Framework indicated that "value in use is appropriate where it is less than replacement cost and greater than net selling price." The explanation is that, in such a scenario, it is not economically rational to replace the asset. However, it is more economically rational for an entity to continue to use the asset and then dispose of it, rather than to sell it immediately.
8. The IPSASB Framework also explained that "value in use is an appropriate measurement basis for the assessment of certain impairments because it is used in the determination of the recoverable amount for an asset or group of assets."

VIU in the IASB Conceptual Framework

9. The IASB Conceptual Framework (IASB Framework) includes VIU as a current value measurement basis for assets and positions VIU as the counterpart for fulfillment value for liabilities. Because the

IASB develops standards for profit-seeking entities the description does not refer to service potential, but is otherwise consistent with that in the IPSASB Framework⁵. Further characteristics of VIU identified in the IASB Framework are that it:

- Does not include transaction costs incurred on acquisition of an asset;
- Does include the present value of expected transaction costs on ultimate disposal of the asset⁶;
- Reflects entity-specific assumptions rather than assumptions by market participants⁷; and
- Cannot be observed directly and is determined by cash-flow based measurement techniques.

VIU in Consultation Paper, Measurement

10. The Consultation Paper, *Measurement*, acknowledged VIU and noted its inclusion in IPSAS 21, and IPSAS 26. The illustrative Exposure Draft (ED) did not include a definition of VIU or application guidance on VIU.

VIU in Current IPSASB Literature

11. To evaluate this issue, it is necessary to consider how VIU is operationalized at standards level. VIU is defined separately in IPSAS 21 and IPSAS 26. The definition of VIU of a cash-generating asset in IPSAS 26 is based on the present value of estimated cash flows and is consistent with that in IAS 36, *Impairment of Assets*. It is also consistent with the definition in the IPSASB Framework.
12. When the reporting entity identifies an indication of impairment it determines the asset's recoverable amount and compares this figure with the asset's carrying amount. Recoverable amount is defined as the higher of an asset's fair value less costs to sell and its VIU. If both fair value less costs to sell and VIU are below carrying amount the asset is impaired and is written down to recoverable amount. It therefore seems more accurate to describe VIU as a technique for determining recoverability rather than a measurement basis.
13. The definition of VIU of a non-cash-generating asset in IPSAS 21 reflects the unsuitability of a cash flow-based analysis for assets that are primarily held for service delivery:

The present value of the asset's remaining service potential.

14. Consistent with this rationale IPSAS 21 defines recoverable service amount (staff underlining). Recoverable service amount is the higher of an asset's fair value less costs to sell and its VIU. There is currently no direct method of quantifying service potential in the IPSASB literature, so it is necessary to use a surrogate. This is replacement cost, which is described in [Agenda Item 6.2.5](#) as

⁵ The present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal

⁶ This reflects VIU's classification as an exit value.

⁷ It is suggested that "in practice, there may be sometimes be little difference between the assumptions that market participants use and those that an entity itself uses.

a technique. Further techniques described as restoration cost and the service units approach may complement replacement cost, dependent on the nature of the impairment.

15. It is certainly arguable that if service potential is determined by reference to replacement cost the usefulness of including a definition of VIU focused on service potential is questionable. This is a standards-level issue. However, as recoverable service amount is effectively the higher of fair value less costs to sell and replacement cost, it might be clearer to state this directly. It is also notable that, as operationalized in IPSAS 21, VIU does not include the proceeds of disposal of the asset at the end of its useful life. It is therefore not consistent with the IPSASB Framework.

Conclusion

16. Staff considers that in a cash-generating context VIU is a measurement technique, rather than a measurement basis, and is one of two arms of a calculation to determine whether the carrying amount under the selected measurement basis overstates the recoverability of an asset. In a non-cash-generating context staff does not think that VIU is a measurement basis. Staff has reservations whether VIU is a measurement technique in such a context as its operationalization relies on another technique.

Decision Required

17. Does the IPSASB agree with the staff and Board Member Sponsor recommendations at paragraphs 2 and 3?

Synergistic Value and Equitable Value

Question

1. Does the IPSASB agree synergistic and equitable value are not appropriate measurement bases to be applied in IPSAS?

Recommendation

2. Staff recommends excluding synergistic and equitable value from the measurement bases available in IPSAS, Measurement and the Conceptual Framework.

Background

3. As part of the CP, the Board considered measurement bases identified in International Valuation Standards (IVS) and GFS. Specifically, IVS concepts of Equitable Value and Synergistic Value were earmarked by the IPSASB in the CP for further consideration during the ED phase of the project.
4. At its March meeting, the IPSASB instructed its Task Force to work with the Conceptual Framework – Limited Scope Update team to determine whether Equitable and Synergistic Value should be IPSAS measurement bases.

Analysis

5. Staff consulted with representatives in the IVS community in order to better understand where the concepts of Synergistic and Equitable Value are applied in practice. Staff were informed the circumstances in which a Synergistic or Equitable Value are applied in practice is rare and there is minimal guidance within the valuation community regarding the development of either concept.
6. In addition to the concepts being rarely applied, Staff noted:
 - (a) The concepts currently exist in IPSAS:

- (i) **Equitable Value.** IVS defines this concept as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

This is conceptually consistent with the definition of net selling price in the Conceptual Framework.⁸ Staff is currently evaluating the appropriateness of net selling price as a measurement basis in IPSAS. A recommendation will be provided to the IPSASB in September 2020.

- (ii) **Synergistic Value.** IVS defines this concept as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

⁸ Paragraph 7.49 defines net selling price as the amount that the entity can obtain from the sale of the asset, after deducting the costs of sale.

This valuation concept is considered when determining the unit of account⁹ of an asset. When the unit of account is more than one asset, the concept is consistent with synergistic value.

- (b) Respondents supported the IPSASB in reviewing whether these concepts were applicable in the public sector. Those that supported this review seemed to do so as it is prudent to consider all options. However, in reviewing responses, no strong arguments were presented as to why either basis was applicable to IPSAS.
- 7. One of the objectives of the measurement project is to provide more detailed guidance on the implementation of commonly used measurement bases. This is to enable constituents to more easily apply the bases in practice. Given the concepts of equitable value and synergistic value are rarely applied, and they are similar to concepts that already exist in the conceptual framework, including them as measurement bases in the Conceptual Framework is unnecessary.

Decision Required

- 8. Does the IPSASB agree with Staff's recommendation?

⁹ Unit of Account will be considered as part of Phase II of the CF-LSU update in H1 2021.

The Usefulness of the Distinction Between Entry and Exit Values

Question

1. Is the classification of measurement bases as entry or exit values useful?

Recommendation

2. Staff and the Board Member Sponsor consider that the entry or exit value classification is unhelpful for the selection of measurement bases, but that the classification should be referred to in the IPSASB Conceptual Framework (IPSASB Framework) to guide the standards-level treatment of transaction costs.

Background

3. Key Issue #2 in the project brief approved in March 2020 indicates that the IPSASB will consider the impact of the revised Measurement chapter in the IASB Conceptual Framework (the IASB Framework), which was finalized after approval and publication of the IPSASB Framework. The IASB's approach to entity and exit values differs from that in the IPSASB Framework, as discussed in paragraphs 6 and 7.

Analysis

4. The IPSASB Framework distinguishes and describes entry and exit values. Paragraph 7.8 explains that:
 - (a) For assets, entry values reflect the cost of purchase whereas exit values reflect the economic benefits from sale. An exit value also reflects the amount that will be derived from use of an asset.
 - (b) For liabilities entry values relate to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability. Exit values reflect the amount required to fulfill an obligation or the amount required to release the entity from the obligation.
5. Since the Framework was approved in 2014 the IASB has published a revised Measurement chapter of its Conceptual Framework and the IPSASB has carried out major ongoing work on measurement. Thinking from both sources has informed further analysis of the approach to entity and exit values.
6. The IASB's final Measurement chapter is closer to that in the IPSASB Framework than in the earlier IASB; 2013 Consultation Paper, *A Review of the Conceptual Framework for Financial Reporting*. However, a difference is that the IASB's Conceptual Framework rejects the entry/exit distinction in the selection of a measurement basis. Paragraph BC6.14 explains that:

The Board did not find such a distinction useful when describing or selecting a measurement basis for use in a particular Standard because the difference between entry and exit values in the same market is often small, except for transaction costs.

7. The IPSASB Framework took a contrary view, citing transaction costs and the tailoring of assets for an acquiring entity's operating requirements as reasons why entry and exit values might differ¹⁰. This may be the case for specialized non-financial assets where markets are limited. The entry/exit distinction was instrumental in the decision to include market value in the Framework and to omit fair value.
8. The Consultation Paper (CP), *Measurement*, classified measurement bases as entry or exit, and the illustrative Exposure Draft in the CP included definitions of entry¹¹ and exit value¹². The classification and definitions were primarily used to underpin the development of principles on transaction costs rather than the selection of measurement bases.
9. Staff is of the view that the selection of a measurement basis should be aligned with the Framework's measurement objective, and, in particular, whether an asset is held for operational or financial capacity, and, for a liability, whether the timing and amount of settlement is certain at the measurement date. This approach is illustrated in Diagrams 4.1 and 4.2 in CP, *Measurement*.
10. As indicated in CP, *Measurement*, the entry/exit distinction is a factor in determining whether transaction costs should be included in the carrying amount of assets and liabilities. CP, *Measurement*, had preliminary views on whether and when transaction costs should be included in carrying amounts determined under the proposed measurement bases.
11. Staff does not think that the IPSASB Framework should include a detailed discussion of the treatment of transaction costs as this is a standards level issue. Staff does, however, think that the IPSASB Framework should refer to the issue in order to provide the context for the substantive guidance to be provided in ED, *Measurement*.

Decision Required

12. Does the IPSASB approve the staff and Board Member Sponsor recommendation in paragraph 2?

¹⁰ Chapter 7.8

¹¹ The price paid to acquire an asset or received to assume a liability in an exchange transaction.

¹² The price received to sell an asset or paid to transfer a liability.

High-level Comparison of IPSASB and IASB Conceptual Frameworks

Purpose

1. March 2020 the IPSASB instructed staff to provide a high-level comparison between the IPSASB Framework and the IASB Framework.
2. The following table addresses this instruction. Staff has corresponded with the member who raised this instruction to ensure that the comparison is appropriate for the purpose of the Limited Scope Update of the Conceptual Framework.

IPSASB Conceptual Framework	IASB Conceptual Framework	Current Differences (and whether addressed in Limited Scope Update)
<p>Objectives of financial reporting - provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes.</p> <p>Users are service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.</p>	<p>Objective of general purpose financial reporting - provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.</p>	<p>IPSASB Framework has specific objective emphasizing importance of accountability in the public sector. The IASB Framework acknowledges the assessment of management's stewardship of the entity's economic resources as an aspect of decision making. <i>(No change)</i></p> <p>Different users reflecting different objectives of entities at which the Frameworks are directed. <i>(No Change)</i></p>
<p>Qualitative Characteristics –relevance, faithful representation, understandability, timeliness, comparability, and verifiability.</p> <p>Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.</p>	<p>Qualitative Characteristics of, and the cost constraint on, useful financial information – If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting.</p>	<p>While the qualitative characteristics (QC) are the same IPSASB Framework does not distinguish fundamental and enhancing characteristics. <i>(No change)</i></p> <p>IPSASB Framework does not address prudence as aspect of neutrality in QC of faithful representation. <i>(Key Issue#9)</i></p> <p>IASB Framework does not discuss materiality and balancing of QCs as pervasive constraints. <i>(No change)</i></p> <p>IASB Framework contains more granular discussion of materiality incorporating consequential amendments from IAS 1, <i>Presentation of Financial Statements</i>, and IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. <i>(Key Issue#10)</i></p>

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IPSASB Conceptual Framework	IASB Conceptual Framework	Current Differences (and whether addressed in Limited Scope Update)
<p>Reporting entity - A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares GPFRs. A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity—such a reporting entity is referred to as a group reporting entity. GPFRs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period.</p>	<p>Financial statements and the reporting entity – A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity. Financial statements are prepared for a reporting period and provide financial information about the reporting entity's assets, liabilities, equity, income and expense.</p>	<p>IASB Framework has a section on the Objective and Scope of Financial Statements. <i>(Relates to scope-see below. No change)</i></p> <p>IASB has sections on Reporting Period and Perspectives Adopted in Financial Statements <i>(Relates to scope-see below. No change)</i></p> <p>IPSASB scope is broader —general purpose financial reports. <i>(No change)</i></p>

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IPSASB Conceptual Framework	IASB Conceptual Framework	Current Differences (and whether addressed in Limited Scope Update)
<p>Elements in financial statements – The elements are assets, liabilities, revenue, expense, ownership contributions and ownership distributions. This does not preclude IPSASs from requiring or allowing the recognition of other resources or obligations that do not satisfy the definition of these elements when necessary to better achieve the objectives of financial reporting.</p>	<p>Elements of financial statements – Financial statements elements are (a) assets, liabilities and equity, which relate to a reporting entity's financial position and (b) income and expenses, which relate to a reporting entity's financial performance.</p>	<p>IPSASB Framework defines ownership contributions and ownership distributions, which are not defined in IASB Framework. <i>(No change)</i></p> <p>IPSASB Framework does not define equity, which is defined in IASB Framework. <i>(No change)</i></p> <p>The definitions of an asset are very similar. However, the IASB description of an economic resource refers to a '<u>right</u> that has the potential to produce economic benefits.' The IPSASB description of a resource refers to an '<u>item</u> with service potential or the ability to generate economic benefits'. (staff underlining) <i>(Key Issue#7)</i></p> <p>The definitions of a liability are very similar. The IASB definition of a liability refers to 'a present obligation to transfer an economic resource'; the IPSASB definition refers to a 'present obligation of the entity for an outflow of resources'. <i>(Key Issue#7)</i></p> <p>IPSASB Framework does not relate elements to specific financial statements. <i>(No change)</i></p> <p>IPSASB Framework includes other economic phenomena- other resources and other obligations. <i>(No change)</i></p> <p>IASB Framework has sections on unit of account and executory contracts. <i>(Key Issue#8)</i></p> <p>IASB Framework has section on 'Substance of contractual rights and contractual obligations.' No equivalent section in IPSASB Framework. <i>(No change)</i></p>

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IPSASB Conceptual Framework	IASB Conceptual Framework	Current Differences (and whether addressed in Limited Scope Update)
<p>Recognition in financial statements – Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFRs. Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognized from the financial statements, and removing the item if such changes have occurred.</p>	<p>Recognition and derecognition – Recognition is the process of capturing for inclusion (in monetary value and words) in the statement of financial position or the statement of financial performance an item that meets the definition of one of the elements of financial statements. Derecognition is the removal of all or part of a recognised asset or liability from an entity's statement of financial position.</p>	<p>IASB Framework relates existence uncertainty and low probability of an inflow or outflow of economic benefits to relevance and measurement uncertainty and other factors to faithful representation. <i>(No change)</i>.</p> <p>IPSASB Framework does not relate existence uncertainty and measurement uncertainty to particular QCs. <i>(No change)</i>.</p>

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<p>Measurement of assets and liabilities in financial statements – 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.</p>	<p>Measurement – Quantifying elements recognised in financial statements in monetary terms requires the selection of a measurement basis which is an identified feature, such as historical cost or fair value, of an item being measured.</p>	<p>IASB Framework does not have a measurement objective. Includes sections on 'Information provided by particular measurement bases' and on 'Factors to consider when selecting a measurement basis.' (See below)</p> <p>IPSAS Framework has a measurement objective based on provision of information on operational capacity, financial capacity and cost of services. <i>No intention to delete measurement objective, but partially related to Key Issue#6 and ED, Measurement, Flow Chart</i></p> <p>IASB Framework includes current cost as a current value measurement basis, which can be ascertained through direct or indirect inputs. (Key Issue#2, Key Issue#3 and Key Issue#4)</p> <p>IPSASB Framework uses 'entry' and 'exit' distinction in the analysis of measurement bases. The IASB Framework explicitly rejects this distinction. (Key Issue#2 and Key Issue#4).</p> <p>IPSAS Framework does not include fair value, but does include market value (pre-IFRS 13 definition of fair value) for both assets and liabilities. (Key Issue#4)</p> <p>IPSAS Framework includes depreciated replacement cost as measurement basis in own right rather than as measurement technique for fair value. (Key Issue#5)</p> <p>IPSAS Framework includes net selling price (asset), cost of release (liability) and assumption price (liability). (Key Issue#2)</p> <p>IASB Framework has sections on 'Measurement of equity' and Cash-flow-based measurement techniques' (Key Issue#2 is considering the rationale for cash-flow based measurement techniques)</p>
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IPSASB Conceptual Framework	IASB Conceptual Framework	Current Differences (and whether addressed in Limited Scope Update)
		IASB chapter is more detailed, for example IASB chapter includes a matrix summarizing information provided by measurement bases (<i>Consider in Measurement Project</i>)
<p>Presentation in General Purpose Financial Reports – Presentation is the selection, location and organization of information that is reported in the GPFRs. Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information. Decisions on selection, location and organization of information are made in response to the needs of users.</p> <p>GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. In addition to the financial statements, GPFRs provide information relevant to, for example, assessments of an entity's service performance and the sustainability of its finances. The objectives of financial reporting, applied to the area covered by a report, guide presentation decisions for that report.</p>	<p>Presentation and disclosure – The reporting entity communicates information about its assets, liabilities, equity, income and expenses by presenting and disclosing information in its financial statements.</p>	<p>Different scope. IPSASB Framework has a wider scope encompassing financial reports outside the core financial statements. IASB scope is financial statements. (<i>No change</i>)</p>
<p>The IPSASB Conceptual Framework does not currently have a chapter on concepts of capital and capital maintenance.</p>	<p>Concepts of capital and capital maintenance – selection of the appropriate concept of capital by an entity based on the needs of the users of its financial statements. A financial concept of capital equates capital to net assets or equity of the entity. A physical concept regards capital as the productive capacity of the entity.</p>	<p>Consideration of concepts of capital and capital maintenance to be considered in Limited Scope Update of Conceptual Framework (<i>Key Issue#6</i>).</p>

Basis for Conclusions: Measurement Chapter of ED, *Revisions to Conceptual Framework for Financial Reporting by Public Sector Entities*

Purpose

1. ED 74 is still under development. A draft will be provided to the IPSASB in September 2020.
2. Staff developed BCs explaining the reason for the project to update the Conceptual Framework. These paragraphs are provided for information and will be included in the draft provided in September 2020.

Reasons for Amending Conceptual Framework

- BC1. [*The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*](#) (the Framework) was approved in September 2014 and issued in October 2014. Publication of the Framework filled a major gap in the IPSASB's literature. Until 2014 the IPSASB had been implicitly reliant on the former International Accounting Standards Committee's (IASC) *Framework for the Preparation and Presentation of Financial Statements*, which was published in 1989. The International Accounting Standards Board (IASB) adopted this document shortly after its inception in April 2001.
- BC2. On approval in September 2014 the IPSASB decided not to commit to a review of the Framework. Although views were expressed that the Framework should be a 'living document' subject to regular updates there was a broader view that it should be allowed to bed down for a significant period. The decision also reflected the amount of Board time devoted to the Framework, particularly in the four to five years prior to approval, and, to a lesser extent, that over-frequent updates might diminish the accountability of the Board, which is one of the purposes of the Framework.
- BC3. In 2018, after having been applied in standards development for over three years the IPSASB considered that a limited scope review of the Framework would be appropriate. This view was reinforced by the fact that the IASB was shortly to issue its finalized Conceptual Framework reflecting post-2014 developments of potential significance. The IPSASB therefore proposed such a project in its Strategy and Work Plan Consultation in 2018. The proposed project received significant support from respondents for the reasons outlined by the IPSASB. Participants at the June 2019 Public Sector Standard Setters Forum supported the project as did the IPSASB Consultative Advisory Group at its December 2019 meeting. The IPSASB initiated the project in March 2020. In order to emphasize that the project is not a full review the IPSASB renamed the project 'Limited Scope Update of the Conceptual Framework' (staff underlining).