

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** March 10–13, 2020

## Agenda Item 8

For:

☐ Approval

☒ Discussion

☒ Information

### MEASUREMENT

<b>Project summary</b>	Project will revise IPSAS requirements for measurement, provide guidance on measurement and address the treatment of transaction costs and borrowing costs.	
<b>Meeting objectives</b> <b>Project management</b>	<b>Topic</b>	<b>Agenda Item</b>
	<a href="#">Measurement: Project Roadmap</a>	<a href="#">8.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">8.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">8.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Overview of Responses</a>	<a href="#">8.2.1</a>
	<a href="#">Themes</a>	<a href="#">8.2.2</a>
	<a href="#">Borrowing Costs (Theme A)</a>	<a href="#">8.2.3</a>
	<a href="#">Conceptual Framework Issues (Theme B and C)</a>	<a href="#">8.2.4</a>
	<a href="#">Fair Value (Theme D)</a>	<a href="#">8.2.5</a>
	<a href="#">Fulfillment Value (Theme E)</a>	<a href="#">8.2.6</a>
	<a href="#">Improvements to Measurement Bases Guidance (Theme F)</a>	<a href="#">8.2.7</a>
	<a href="#">Flow Charts (Theme G)</a>	<a href="#">8.2.8</a>
<b>Other supporting items</b>	<a href="#">Analysis of Responses</a>	<a href="#">8.3.1 – 8.3.15</a>
	<a href="#">Analysis of Respondents by Region, Function and Language</a>	<a href="#">8.3.16</a>
	<a href="#">List of Respondents</a>	<a href="#">8.3.17</a>
	<a href="#">Draft ED XX, Improvements to IPSAS 5, <i>Borrowing Costs</i></a>	<a href="#">8.3.18</a>

**MEASUREMENT:  
PROJECT ROADMAP**

<b>Meeting</b>	<b>Completed Actions or Discussions / Planned Actions or Discussions:</b>
March 2019	1. Approve Consultation Paper and Illustrative Exposure Draft
June 2019	1. Document out for comment
September 2019	1. Document out for comment
December 2019	1. Preliminary Review of Responses to Consultation Paper
March 2020	1. Review of Responses to Consultation Paper 2. Discussion of Issues
June 2020	1. Discussion of Issues 2. Discuss proposed consequential amendments
September 2020	1. Approve Exposure Draft

## INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2019	1. Prepare a detailed review of responses for the March 2020 meeting	1. See <a href="#">Agenda Item 8.3.1</a> – <a href="#">Agenda Item 8.3.15</a> .
	2. Provide recommendations on how to take accounting for borrowing costs forward, based largely on the retention of the current approach (including draft text).	2. Retain Accounting Policy Choice to expense / capitalize borrowing costs. BCs of IPSAS 5 are updated to reflect decision (See <a href="#">Agenda Item 8.2.3</a> )
March 2019	3. All instructions provided up until March 2019 were reflected in the <a href="#">Consultation Paper on Measurement</a> .	3. All instructions provided up until March 2019 were reflected in the <a href="#">Consultation Paper on Measurement</a> .

**DECISIONS UP TO PREVIOUS MEETING**

Meeting	Decision	BC Reference
December 2019	1. No decisions made (preliminary review of responses)	1. Not applicable
March 2019	1. All decisions made up until March 2019 were reflected in the <a href="#">Consultation Paper on Measurement</a> .	1. All decisions made up until March 2019 were reflected in the <a href="#">Consultation Paper on Measurement</a> .

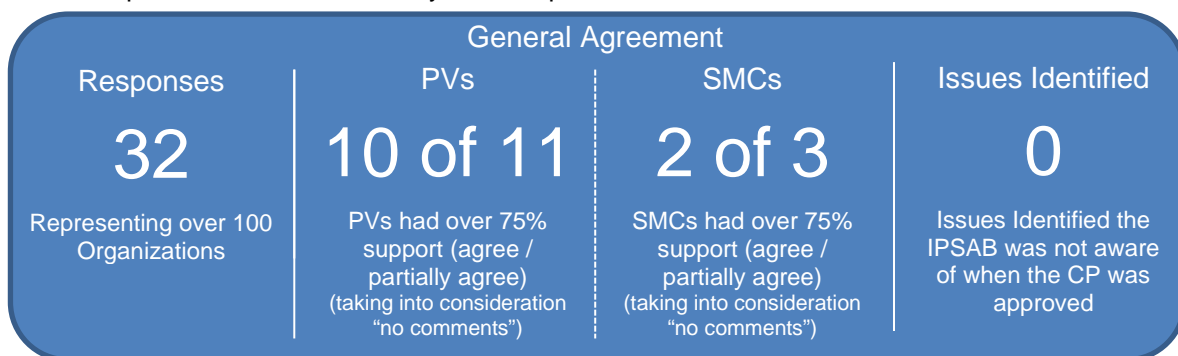
## Overview of Responses

### Question

- Does the IPSASB agree with the recommendation how to action the responses to the PVs and SMCs?

### Detail

- Staff has performed a detailed analysis of responses to the Measurement CP.



- There is agreement with the Board's PVs and SMCs. However, respondents identified a number of themes the Board should consider as part of the ED Phase of this project. While the Board was aware of these themes when the CP was issued, and that they would need to be addressed, it is reassuring that no additional themes were identified that Board had not previously considered.
- Staff has summarized its analysis of responses in the table below. This analysis identifies the themes that emerged from the responses and recommends how they should be addressed during the ED Phase of the project. For detailed analysis see [Agenda Item 8.3.1](#).

PV / SMC	Summary	Recommendation <sup>1</sup>
<b>PV 1</b> ( <a href="#">Agenda Item 8.3.2</a> ) Fair value, fulfillment value, historical cost and replacement cost require additional application guidance.	<p><b>84%</b></p> <p><b>Agreed or partially agreed with the PV</b></p> <p>Several respondents suggested aligning the application guidance with the Conceptual Framework.</p>	Revisit the measurement bases identified in the Conceptual Framework as part of the Conceptual Framework Limited Scope Update. (See <a href="#">Agenda Item 8.2.2 – Theme B</a> )

<sup>1</sup> While recommendations generally align with the quantitative analysis, i.e. XX% supports the PV/SMC, this is only one factor in developing recommendations. Recommendations also consider strong qualitative arguments, even when those arguments are in the minority. See detailed analysis in [Agenda Item 8.3.1](#).

<p><b>PV 2</b> (<a href="#">Agenda Item 8.3.3</a>)</p> <p>Application guidance for the most commonly used measurement bases should be generic in nature.</p>	<p><b>81%</b></p> <p>Agreed or partially agreed with the PV</p>	<p>Continue with the view proposed in the CP.</p>
<p><b>PV 3</b> (<a href="#">Agenda Item 8.3.4</a>)</p> <p>Application guidance for <b>historical cost</b> should be derived from existing IPSAS.</p>	<p><b>56%</b></p> <p>Agreed or partially agreed with the PV</p> <p>8 respondents had “no comment” skewing the support for this PV – removing the “no comment” responses results in <b>75%</b> agree or partially agree.</p> <p>Several respondents provided recommendations to improve the historical cost application guidance.</p>	<p>Continue with the proposed approach.</p> <p>Action respondent recommendations as appropriate.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme F</a>)</p>
<p><b>PV 4</b> (<a href="#">Agenda Item 8.3.5</a>)</p> <p>Application guidance for <b>fair value</b> should be aligned with IFRS 13.</p>	<p><b>81%</b></p> <p>Agreed or partially agreed with the PV</p> <p>Several respondents provided recommendations to improve the fair value application guidance.</p> <p>Several respondents identified inconsistencies with the fair value application guidance and the Conceptual Framework.</p>	<p>Continue with the proposed approach.</p> <p>Action respondent recommendations as appropriate.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme B</a> and <a href="#">E</a>)</p> <p>Address inconsistencies with the Conceptual Frameworks in conjunction with the Conceptual Framework Limited Scope Update Project.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme C</a>)</p>

<p><b>PV 5</b> (<a href="#">Agenda Item 8.3.6</a>)</p> <p>Application guidance for <b>fulfillment value</b> should be derived from the Conceptual Framework.</p>	<p style="text-align: center;"><b>72%</b></p> <p style="text-align: center;"><b>Agreed or partially agreed with the PV</b></p> <p>6 respondents had “no comment” skewing the support for this PV – removing the “no comment” responses results in <b>88%</b> agree or partially agree.</p> <p>Several respondents provided recommendations to improve the fair value application guidance.</p> <p>Several respondents questioned whether a risk adjustment was consistent with the Conceptual Framework.</p>	<p>Continue with the proposed approach.</p> <p>Action respondent recommendations as appropriate.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme F</a>)</p> <p>Consider the appropriateness of a risk adjustment when measuring at fulfillment value.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme E</a>)</p>
<p><b>PV 6</b> (<a href="#">Agenda Item 8.3.7</a>)</p> <p>Application guidance for <b>replacement cost</b> should be derived from the Conceptual Framework.</p>	<p style="text-align: center;"><b>68%</b></p> <p style="text-align: center;"><b>Agreed or partially agreed with the PV</b></p> <p>8 respondents had “no comment” skewing the support for this PV – removing the “no comment” responses results in <b>91%</b> agree or partially agree.</p> <p>Several respondents provided recommendations to improve the replacement cost application guidance.</p>	<p>Continue with the proposed approach.</p> <p>Action respondent recommendations as appropriate.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme F</a>)</p>

<p><b>PV 7</b> (<a href="#">Agenda Item 8.3.8</a>)</p> <p>Borrowing costs should be expensed rather than capitalized.</p>	<p><b>53%</b></p> <p>Agreed or partially agreed with the PV</p> <p>Respondents were split between capitalizing and expensing borrowing costs.</p>	<p>Retain the accounting policy choice in IPSAS 5 to expense or capitalize qualifying borrowing costs.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme A</a>)</p>
<p><b>PV 8</b> (<a href="#">Agenda Item 8.3.9</a>)</p> <p><b>Transaction costs</b> are incremental costs directly attributable to the acquisition, issue or disposal of an asset or liability.</p>	<p><b>84%</b></p> <p>Agreed or partially agreed with the PV</p>	<p>Continue with the view proposed in the CP.</p>
<p><b>PV 9</b> (<a href="#">Agenda Item 8.3.10</a>)</p> <p>Transaction costs should be addressed in IPSAS, <i>Measurement</i>.</p>	<p><b>78%</b></p> <p>Agreed or partially agreed with the PV</p>	<p>Continue with the view proposed in the CP.</p>
<p><b>PV 10</b> (<a href="#">Agenda Item 8.3.11</a>)</p> <p>Transaction costs – entering a transaction</p>	<p><b>72%</b></p> <p>Agreed or partially agreed with the PV</p> <p>7 respondents had “no comment” skewing the support for this PV – removing the “no comment” responses results in <b>92%</b> agree or partially agree.</p>	<p>Continue with the view proposed in the CP.</p>
<p><b>PV 11</b> (<a href="#">Agenda Item 8.3.12</a>)</p> <p>Transaction costs – exiting a transaction</p>	<p><b>69%</b></p> <p>Agreed or partially agreed with the PV</p> <p>8 respondents had “no comment” skewing the support for this PV – removing the “no comment” responses results in <b>92%</b> agree or partially agree.</p>	<p>Continue with the view proposed in the CP.</p>



<p><b>SMC 1</b> (<a href="#">Agenda Item 8.3.13</a>)</p> <p>Do you agree the list of measurement definitions is exhaustive?</p>	<p><b>66%</b></p> <p><b>Agreed or partially agreed with the PV</b></p> <p>8 respondents had “no comment” skewing the support for this PV – removing the “no comment” responses results in <b>88%</b> agree or partially agree.</p>	<p>Consider the definitions holistically as part of the development of the ED.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme H</a>)</p>
<p><b>SMC 2</b> (<a href="#">Agenda Item 8.3.14</a>)</p> <p>Do you agree equitable and synergistic value should be considered as an appropriate measurement basis in the public sector?</p>	<p><b>50%</b></p> <p><b>Agreed or partially agreed with the PV</b></p> <p>13 respondents had “no comment” skewing the support for this PV – removing the “no comment” responses results in <b>68%</b> agree or partially agree.</p>	<p>Revisit the measurement bases identified in the Conceptual Framework as part of the Conceptual Framework Limited Scope Update.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme B</a>)</p>
<p><b>SMC 3</b> (<a href="#">Agenda Item 8.3.15</a>)</p> <p>Do you agree the flowchart provides a helpful starting point when evaluating an appropriate measurement basis?</p>	<p><b>75%</b></p> <p><b>Agreed or partially agreed with the PV</b></p> <p>Several respondents suggested aligning the application guidance with the Conceptual Framework.</p>	<p>Consider comments from respondents after applying flow chart to IPSAS.</p> <p>(See <a href="#">Agenda Item 8.2.2 – Theme G</a>)</p>

### Decision Required

- Does the IPSASB agree with the Staff recommendation?

## Themes

### Question

1. Does the IPSASB agree with Staff's recommendation to re-activate the Measurement Task Force and to delegate themes for the Task Force to develop recommendations to the IPSASB?

### Detail

2. Including the Illustrative ED in the Measurement CP assisted constituents in visualizing how the Board's PVs and SMCs might be presented in an IPSAS and led to some detailed and helpful responses. These included some recommended changes to the Illustrative ED so it can be improved for the ED Phase of the project. Staff grouped these recommendations into themes as noted in the table below.
3. Most themes require detailed consideration based on an in-depth analysis of the issues raised by constituents, which may result in significant time allocation at upcoming Board meetings. In order best manage the Board time, Staff proposes the themes be delegated to the Measurement Task Force as appropriate.
4. Staff has summarized its recommendations on how to action the themes identified below:

	Theme	PV/SMC	Recommendation	Timing
<b>A</b>	<b>Borrowing Cost</b>	PV 7	Retain the accounting policy choice in IPSAS 5 to expense or capitalize qualifying borrowing costs and update AGs and BCs in IPSAS 5 based in IPSASB decision (see <a href="#">Agenda Item 8.2.3</a> )	<b>IPSASB</b> March 2020
<b>B</b>	<b>Measurement Bases</b> <i>Conceptual Framework Issues</i> Alignment with Conceptual Framework Synergistic / Equitable Value	PV 1 SMC2	Delegate to Task Force – work with the Conceptual Framework Limited Scope Update project Staff to address issues consistently (see <a href="#">Agenda Item 8.2.4</a> )	<b>Task Force</b> May 2020 Teleconference <b>IPSASB</b> June 2020 (The TF will present its initial views to ensure its views are consistent with those of the Board)
<b>C</b>	<b>Fair Value</b> <i>Conceptual Framework Issues</i> Replacement cost Fair value vs market value Fair value in the Conceptual Framework	PV 5		
<b>D</b>	<b>Fair Value</b> Review FV used in IPSAS Highest and best use	PV 5	Delegate to Task Force – consider public sector specific fair value issues (see <a href="#">Agenda Item 8.2.5</a> )	<b>Task Force</b> May 2020 Teleconference <b>IPSASB</b> June 2020

<b>E</b>	<b>Fulfillment Value</b> Risk Weighted Discount Rate	PV 4	Delegate to Task Force – evaluate the technical merits of including a risk adjustment (see <a href="#">Agenda Item 8.2.6</a> )	<b>Task Force</b> July 2020 in-person <b>IPSASB</b> September 2020
<b>F</b>	<b>Measurement Bases</b> Historical Cost Fair Value Fulfillment Value Replacement Cost	PV 3–5	Delegate to Task Force – action respondent recommended improvements as appropriate (see <a href="#">Agenda Item 8.2.7</a> )	<b>Task Force</b> May 2020 Teleconference <b>IPSASB</b> June 2020
<b>G</b>	<b>Flow Chart</b> Apply flow chart to each standard	SMC 3	Delegate to Task Force – apply flow chart to each IPSAS to determine whether changes to measurement bases are required (see <a href="#">Agenda Item 8.2.8</a> )	<b>Task Force</b> July 2020 in-person <b>IPSASB</b> September 2020
<b>H</b>	<b>Consequential Amendments</b>	-	Delegate to Task Force – develop ED	<b>Task Force</b> July 2020 in-person <b>IPSASB</b> September 2020
	<b>Exposure Drafts</b> ED 73, Measurement ED 74, PP&E ED, Chapter 7 of Conceptual Framework			

7. In developing the timeline Staff considered the following:

- a) IPSAS, *Measurement* must align with the decisions made in the Conceptual Framework Limited Scope Update. The timeline of these projects has been aligned so decisions are made congruently. Furthermore, a joint in-person Task Force meeting is scheduled for July 6<sup>th</sup> – 8<sup>th</sup>, 2020 to further support this goal;
- b) Consequential amendments are a key component of the Measurement ED. Three types of amendments are expected:
  - (i) Moving generic guidance from current IPSAS to IPSAS, *Measurement*;
  - (ii) Changes to the measurement bases in current IPSAS as a result of the application of the flow chart (See [Agenda Item 8.2.8](#)); and
  - (iii) Determining whether fair value in current IPSAS is consistent with Fair Value as defined in IFRS 13 (See [Agenda Item 8.2.5](#)).

Amendments will be addressed throughout Q2 and Q3 2020 and brought to the IPSASB in September 2020; and

- c) All EDs tied to the measurement project will be developed by the Task Force during the July in-person task force meeting and reviewed by the IPSASB in September 2020.

**Decision Required**

8. Does the IPSASB agree with Staff's recommendation to re-activate the Measurement Task Force and to delegate themes for the Task Force to develop recommendations to the IPSASB?

**Appendix A to Agenda Item 8.2.2**

**Measurement Project Plan**

Theme	Q1 2020	Q2 2020		Q3 2020	
	IPSASB Meeting (March)	Task Force Call	IPSASB Meeting (June)	Task Force In-Person	IPSASB Meeting (Sept)
Measurement					
Detailed Analysis of Responses	X				
Borrowing Costs	X				
Conceptual Framework Issues					
Measurement Bases		X	X		If required
Fair Value		X	X		If required
Synergistic / Equitable Value		X	X		If required
Fair Value		X	X		
Fulfillment Value				X	X
Measurement Bases		X	X		If required
Flow Chart				X	X
Consequential				X	X
Exposure Drafts				X	X
Conceptual Framework					
Project Brief	X				
Conceptual Framework Issues					
Measurement Bases		X	X		
Fair Value		X	X		
Measurement Attributes		X	X		
Other Issues			X		
Exposure Draft				X	X

## **Borrowing Costs (Theme A)**

### **Question**

1. Does the IPSASB agree with the recommendation to retain the accounting policy choice in IPSAS 5, *Borrowing Costs*, permitting entities to expense or capitalize qualifying borrowing costs?

### **Detail**

2. Respondents were almost evenly divided as to whether they agreed or disagreed with the IPSASB's preliminary view to expense all borrowing costs:
  - (a) 14 agreed;
  - (b) 3 partially agreed;
  - (c) 12 disagreed; and
  - (d) 3 had no comment.
3. During the IPSASB's preliminary review of responses at its December 2019 meeting, Members asked Staff to develop a recommendation and draft guidance for the March 2020 meeting.

### **Analysis**

4. Respondents to the IPSASB's Preliminary View 7 have not provided the Board with a clear direction forward.

### *Technical*

5. Those respondents who supported their view with a technical analysis, evaluated whether borrowing costs are an attribute of cost. Conceptually, respondents disagreed whether borrowing costs are an attribute of cost:
  - (a) Some who support the IPSASB's view do so because they argue borrowing costs are not part of the cost of the asset – whether an asset is acquired with cash or debt should not impact its value as the economic and service potential are the same;
  - (b) Some who oppose the IPSASB's view do so because they argue borrowing costs are part of the cost of the asset – including borrowing costs in the cost of the asset allows amortization to reflect the cost the entity has incurred to provide the service in each period.

### *Public Sector*

6. From a public sector perspective, the CP proposed expensing borrowing costs to align with GFS and reduce the burden of allocating centralized borrowing.
  - (a) **GFS.** This remains a benefit of requiring all borrowing costs be expensed.
  - (b) **Centralized Borrowing Costs.** Many respondents indicated this challenge is overstated, saying that the public sector reasons for expensing are weaker than as set out in the CP.

*Retain Accounting Policy Choice*

7. Given the disagreements, both conceptually and between respondents, one suggestion raised by several respondents seems particularly valid – retain the existing accounting policy choice in IPSAS 5. This proposal allows:
  - (a) Borrowing costs to be expensed; or
  - (b) Borrowing costs to be capitalized when they relate to a qualifying asset.
8. The benefits to retaining the accounting policy choice include:
  - (a) The suggestion was provided by those who supported, and those who opposed, the IPSASB's preliminary view;
  - (b) Either expensing or capitalizing borrowing costs are supported in the IPSASB's Conceptual Framework; and
  - (c) Alignment with IFRS or GFS can be achieved depending on what the entity considers more appropriate for their circumstances.
9. In paragraph 4, Staff indicated that respondents did not provide the Board with a clear steer on how this issue should be addressed. An alternative interpretation is the split in views has provided the Board with a clear path forward—an accounting policy choice continues to be necessary as it allows constituents two different approaches to present financial information to their users.

**Staff Recommendation**

10. Staff recommends retaining the accounting policy choice to expense or capitalize borrowing costs. However, given the IPSASB has considered this issue more than once, and now has mixed responses from respondents, Staff recommends the IPSASB close this issue by:
  - (a) Developing Basis for Conclusions detailing why the IPSASB has maintained its accounting policy choice (See ED XX, [Agenda Item 8.3.18](#)); and
  - (b) Developing Application Guidance to clarify the terms “qualifying asset” and “direct expenditure” (See ED XX, [Agenda Item 8.3.18](#)). In developing this guidance, Staff compared IPSAS 5 and IAS 21 and concluded that there is no additional material in IAS 21 that would necessitate changes to the core text of IPSAS 5.
11. Staff recommends issuing ED XX, *Improvements to IPSAS 5*, when approved by the IPSASB. This reduces the material for constituents to review when the Measurement ED is issued later in 2020.

**Decision Required**

12. Does the IPSASB agree with the Staff recommendation?

## Conceptual Framework Issues (Theme B and C)

### Question

1. Does the IPSASB agree with the recommendation on how to address measurement issues related to the Conceptual Framework?
2. Are there any other issues the IPSASB believes Staff should consider?

### Detail

3. When the Measurement CP was issued, the IPSASB was aware that the CP included several proposals that were inconsistent with the Conceptual Framework. Respondents to the measurement CP identified these same issues.
4. Issues identified include:
  - (a) **Alignment of measurement bases.** The measurement bases in the Conceptual Framework should align with the application guidance developed in the illustrative ED.
    - (i) **Consider Synergistic / Equitable Value.** The Board should consider including the IVS Synergetic Value and Equitable Value measurement bases.
  - (b) **Replacement cost.** Replacement cost is identified as a measurement basis and as a measurement technique<sup>2</sup>. This inconsistency should be resolved.
  - (c) **Fair value vs market value.** Fair value and market value are similar concepts that should be better differentiated. Furthermore, market value, while identified in the Conceptual Framework, is not applied in IPSAS.
  - (d) **Fair value in the Conceptual Framework.** Fair value is not identified in the Conceptual Framework as a measurement basis, but is applied in numerous IPSAS and in the CP.

### Analysis

5. As the Board was aware of the inconsistencies between the CP and the Conceptual Framework, the work plan allows for these two projects to operate in parallel. This ensures:
  - (a) **Consistent Guidance.** Considering measurement issues at the IPSAS level and the Conceptual Framework level facilitates the development of guidance that is complementary in both IPSAS, *Measurement*, and the Conceptual Framework. Consistent principles across IPSAS should reduce confusion for constituents and facilitate comparability and consistency of IPSAS guidance.
  - (b) **Consistent Analysis.** Addressing measurement issues related to both projects at the same time ensures consistent decisions are made by the IPSASB. This consistent decision making

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<sup>2</sup> When determining fair value, the CP indicates it is acceptable to determine the replacement cost as a proxy for fair value.



will provide a stronger, more direct link between the Conceptual Framework and the Measurement IPSAS.

- (c) **Address Issues Congruently.** The IPSASB is aware there are inconsistencies between the proposals put forward in the Measurement CP and the Conceptual Framework. Running the projects in parallel allows these issues to be addressed jointly allowing constituents to understand how the guidance fits with the Conceptual Framework.

**For discussion by the Task Force**

- 6. To address these issues, the Task Force will first consider the following:
  - (a) **Alignment of measurement bases.** With the Conceptual Framework Limited Scope Update Staff, the Task Force will review the measurement bases identified in the Conceptual Framework to determine whether changes are required to enhance alignment with the Measurement project. This could result in the following options:
    - (i) Removing measurement bases from the Conceptual Framework;
    - (ii) Adding measurement bases to the Application Guidance in the Measurement ED; or
    - (iii) A combination of the two.
  - (b) **Replacement cost.** The Task Force will consider how similar the measurement basis and measurement technique are in practice. Depending on how similar they are, this could result in:
    - (i) Amending the terminology attributed to either the base or the technique;
    - (ii) Removing the measurement technique by referring simply to the measurement basis; or
    - (iii) Reconsidering the interaction between the measurement basis and the measurement technique at a conceptual level.
  - (c) **Fair value vs market value.** The Task Force will consider how similar fair value and market value are in practice. This may result in:
    - (i) Retaining both measurement bases, with a clear justification; or
    - (ii) Removing one of the measurement bases.
  - (d) **Fair value in the Conceptual Framework.** This issue will be linked with the “fair value vs market value” issue. Given respondents supported the fair value guidance developed in the CP, the Task Force will work closely with the Conceptual Framework Limited Scope Update Staff to align the projects.
- 7. Staff have developed a project work plan that ensures issues related to both projects are addressed together and consistently (see [Appendix A to Agenda Item 8.2.2](#)).

**Decision Required**

- 8. Does the IPSASB agree with the Staff recommendation?
- 9. Are there any additional issues Staff should consider?

## **Fair Value (Theme D)**

### **Question**

1. Does the IPSASB agree with the proposed approach to address the issues identified related to fair value?

### **Detail**

2. In responding to whether fair value guidance should be aligned with IFRS 13, some respondents noted:
  - (a) A review of existing IPSAS is necessary to determine whether the term fair value as currently applied is consistent with the IFRS 13 definition; and
  - (b) It is not appropriate to apply the concept of highest and best use in the public sector.

### **Analysis**

3. Both issues were considered by the IPSASB during the development of the CP. In both cases, the Board agreed additional work may be required when responses were analyzed:
  - (a) **Review of existing IPSAS.** The term fair value is used throughout IPSAS. Adopting the IFRS 13 definition of fair value requires each instance fair value is applied in IPSAS be reviewed to determine whether the IFRS 13 definition is applicable (for example, fair value is used in the PP&E standard and the financial instruments standard. A review is necessary to determine whether it is appropriate to apply the IFRS 13 definition in each instance).
  - (b) **Highest and best use.** Applying the concept of highest and best use requires an entity consider the use of a non-financial asset that maximizes the value of that asset. Some respondents noted this is challenging in the public sector when the asset is held to provide a specific service (for example, there is a disconnect between valuing the highest and best use of a school in a city center, which may be to construct an office tower, and the value it provides delivering educational services to citizens).
4. The Board agreed to retain the highest and best use guidance in the fair value appendix in order to align with the private sector fair value guidance. The Board concluded that, where terminology is consistent between the private and public sector, the underlying concepts should also be consistent.
5. When this decision was made, the Board discussed whether highest and best use was applicable in all public sector circumstances (such as the school example in paragraph 3(b)). When the CP was approved, the Board concluded that, at a minimum, the principle of highest and best use was applicable for financial instruments. However, the principle might not be applicable in all circumstances and the IPSASB agreed that Staff would need to consider this as part of the review outlined in paragraph 3(a).

**For discussion by the Task Force**

6. When reviewing existing IPSAS to determine whether fair value as defined in the CP is applicable, concerns raised by respondents relating to highest and best use are one factor the Task Force will consider.
7. As noted above, the concept of highest and best use is applicable when measuring assets and liabilities within the scope of IPSAS 41, *Financial Instruments*, at fair value. However, this may not be the case in all IPSAS and respondents have identified scenarios for the Task Force to consider.
8. Where fair value as defined in the CP is not applicable in a specific IPSAS, the Task Force will have to determine whether another measurement basis is more appropriate that achieves the measurement object of the given IPSAS. This will likely require co-ordination with the Conceptual Framework Limited Scope Update project team to ensure an appropriate measurement basis is applied.
9. Any changes proposed will be one part of the consequential amendments (See paragraph 7(c) of [Agenda Item 8.2.2](#)).

**Decision Required**

10. Does the IPSASB support the approach of delegating detailed discussion to the Task Force?

## **Fulfillment Value (Theme E)**

### **Question**

1. Does the IPSASB support the approach of delegating detailed discussion to the Task Force as to whether fulfillment value should include a risk adjustment?

### **Detail**

2. In responding to whether fulfillment value guidance should be based on principles in the IPSASB Conceptual Framework, some respondents questioned whether the requirement to include a risk adjustment in an entity's estimates of future outflows is consistent with existing guidance in the Conceptual Framework.
3. Respondents noted including a risk adjustment:
  - (a) May overstate liabilities;
  - (b) May distort a faithful representation of relevant information to users of the financial statements about the extent to which the entity can settle its obligations;
  - (c) Is inconsistent with IPSAS 42, *Social Benefits*, which excludes a risk premium in the calculation of a social benefit liability; and
  - (d) Is overly complex and lacks clarity.

### **Analysis**

4. The risk adjustment included in the calculation of fulfillment value was included to measure the compensation that the entity would require to make the entity indifferent between:
  - (a) Fulfilling a liability that has a range of possible outcomes; and
  - (b) Fulfilling a liability that will generate fixed outflows of resources with the same expected present value as the liability being measured.

For example, the risk adjustment would measure the compensation that the entity would require to make it indifferent between fulfilling a liability that has a 50 per cent probability of being CU90 and a 50 per cent probability of being CU110 and fulfilling a liability that is fixed at CU100. As a result, the risk adjustment conveys information to users of financial statements about the entity's perception of the effects of uncertainty about the amount and timing of cash flows that arise from a liability.

### **For discussion by the Task Force**

5. This is likely to be one of the most technical issues facing the task force as it will focus on valuation principles applied when measuring a liability. In order to bring a recommendation to the IPSASB the task force will consider:
  - (a) The technical valuation arguments for and against why a risk adjustment should be included in the measurement of fulfillment value; and
  - (b) Qualitative considerations including users' needs, complexity of calculation, availability of measurement inputs, etc.

**Decision Required**

6. Does the IPSASB support the approach of delegating detailed discussion to the Task Force?

## **Improvements to Measurement Bases Guidance (Theme F)**

### **Question**

1. Does the IPSASB agree the Task Force should be delegated the responsibility to consider changes to the guidance on the measurement bases proposed in the responses to the CP?

### **Detail**

2. Respondents generally agreed or partially agreed with PV 3 – PV 5 which proposed guidance related to historical cost, fair value, fulfillment value and replacement cost, and made several recommendations for improving the text as presented in the Illustrative ED.

### **Analysis**

3. The inclusion of an illustrative ED provided respondents with the opportunity to recommend improvements to the guidance proposed. Staff considers this to be a positive outcome from the combined CP/ED approach and should result in a more robust ED.
4. These proposals ranged from editorial in nature to conceptual.
  - (a) **Conceptual.** Where proposals were conceptual in nature, a theme was created by Staff for separate consideration by the IPSASB (for example, issues related to fair value [[Agenda Item 8.2.6](#)] and the use of risk weighted discount rates [[Agenda Item 8.2.7](#)]).
  - (b) **Non-conceptual.** Issues have been grouped for analysis to determine whether they are specific to a jurisdiction, whether they improve the guidance, or whether they identify an issue with the guidance as drafted.

### **Recommendation**

5. Staff recommends the non-conceptual issues be delegated to the Measurement Task Force to determine whether they should be actioned for the purposes of the Exposure Draft.

### **Decision Required**

6. Does the IPSASB agree with the Staff recommendation?

## **Flow Charts (Theme G)**

### **Question**

1. Does the IPSASB agree with the proposed approach to applying the measurement flow charts?

### **Detail**

2. In responding to whether the measurement flow charts provide a helpful starting point for the IPSASB to review its measurement requirements, most respondents agreed. However, even those that agreed provided recommendations on how the flow charts could be improved.

### **Analysis**

3. Staff has reviewed all the responses. Staff noted there are several responses suggesting changes to the flow charts. Many of these suggestions result from a lack of understanding in how the flow charts should be applied. For example, the IPSASB developed the flow charts explicitly to support its evaluation of which measurement basis should be applied in a particular IPSAS, either existing or under development. Some respondents interpreted the flow charts to be used by financial statement preparers to determine the appropriate measurement basis.
4. While several suggestions may improve the flow charts, Staff is of the view the flow charts should first be applied to IPSAS. This process allows Staff to determine the weaknesses of the flow charts and therefore which responses should be actioned to improve them.

### **For discussion by the Task Force**

5. The Task Force will perform the following steps:
  - (a) Apply the flow charts to each IPSAS to determine whether changes to existing measurement bases are required;
    - (i) Applying the flow charts will require an intensive analysis. The methodology was developed to assist the Board when reviewing existing IPSAS and developing new IPSAS by providing a bridge between the principles in the Conceptual Framework and how they should be applied throughout IPSAS. This process will be a sense check on existing measurement bases.
  - (b) Consider comments from respondents in how to improve the flow charts to determine if that had an impact on the analysis; and
  - (c) Identify IPSAS where the flow chart suggests a change to the measurement basis and develop a recommendation to the IPSASB.

### **Decision Required**

6. Does the IPSASB agree with the process to be applied by the Task Force?

## Analysis of Responses

### Purpose

1. To provide the Board with Staff's analysis of the responses to the Measurement Consultation Paper (CP) to support the Board in forming views.

### General Themes

2. Staff identified general themes raised by some respondents for consideration by the Board:
  - (a) **General Support.** Most of the preliminary views (PV) and specific matters for comment (SMC) were strongly supported by respondents noting they either agreed, or partially agreed. Support was weaker for:
    - (i) **PV 3 – Historical Cost.** A large number of respondents, eight, had “no comment” for this PV. Along with six respondents that disagreed with the PV. However, those that disagreed, disagreed the guidance should be developed in IPSAS, *Measurement*, not with the guidance developed. (See [Agenda Item 8.3.4](#))
    - (ii) **PV 7 – Borrowing Costs.** See (b) below.
    - (iii) **SMC 2 – Synergistic / Equitable Value.** As part of the CP, the Board consider measurement bases identified in IVS and GFS. Agreement with the SMC was low in part due to 13 respondents providing “no comment” on this item. Given the level of “no comment”, it is likely this question was targeted at respondents who are less familiar with IVS. (See [Agenda Item 8.3.14](#))

While support was generally strong, many respondents that agreed / partially agreed provided specific suggestions to improve the illustrative ED included as an appendix to the CP. Staff consider this to be a success indicator as this will help enhance the quality of the upcoming ED;

- (b) **Borrowing Costs.** This was the most divisive preliminary view put forward. 14 respondents supported the PV, and 12 opposed the preliminary view. Given the PV suggested removing an accounting policy choice, the Board was aware this would be a contentious issue (See [Agenda Item 8.3.8](#)).
- (c) **Link with Conceptual Framework.** When issuing the CP, the Board was aware of several inconsistencies between its Conceptual Framework and the concepts proposed in the CP. A number of these related to fair value (See [Agenda Item 8.3.5](#)). Respondents identified these same inconsistencies in their responses. No additional inconsistencies were identified that were not previously discussed by the Board. As such, working on the measurement project and Conceptual Framework Limited Scope Update in parallel continues to be appropriate.

### Items of note

3. **Number of responses.** The IPSASB received 32 responses to the Measurement CP. This has increased from 31 responses noted in December. The increase is due to a response being submitted after the posting date for the December meeting. See [Agenda Item 8.3.16](#) for revised analysis of responses.



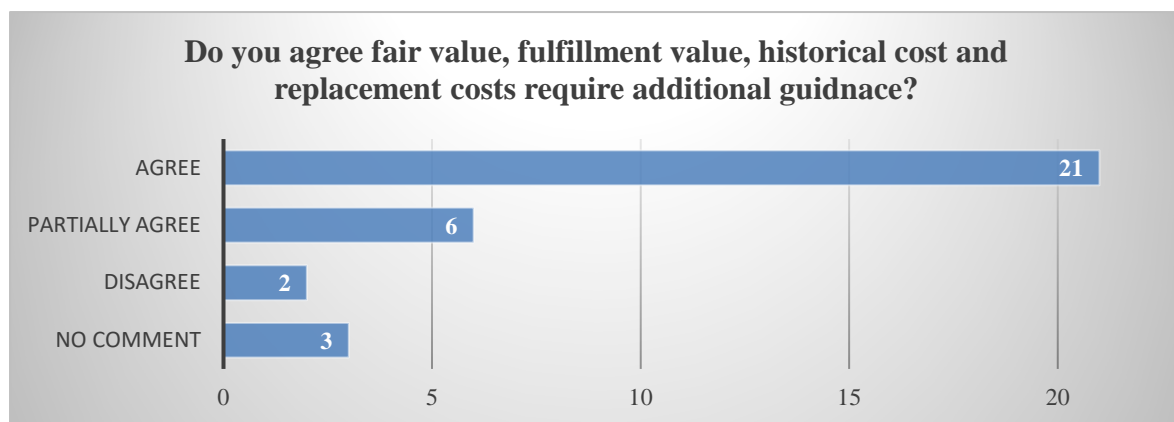
## Preliminary View 1

### Question

1. The IPSASB's Preliminary View is that fair value, fulfillment value, historical cost and replacement cost require additional application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why:



### Agree

2. 21 respondents, or 66%, agreed. Of note, some respondents noted:
  - (a) The IPSASB should consider providing application guidance for all measurement bases in the Conceptual Framework, or delete the measurement bases in the Conceptual Framework where no application guidance is being developed (Respondent 07 and 09); and
  - (b) Consider including measurement guidance on transaction price, as identified in ED 70 and ED 71, and net realizable value (Respondent 07, 16 and 18).

### Partially Agree

3. 6 respondents, or 19%, partially agreed. Those who partially agreed noted:
  - (a) Guidance on additional measurement bases should be developed, including, impairment, value in use, net realizable value, market value and all measurement bases in the Conceptual Framework.

### Disagree

4. 2 respondents, or 6%, disagreed. Those who disagreed noted:
  - (a) Developing application guidance for measurement should occur after the review of the Conceptual Framework project (Respondent 04); and
  - (b) Guidance on all measurement bases in the Conceptual Framework should be developed (Respondent 20).

**Staff Analysis**

5. Several respondents noted there should be consistency between the measurement bases identified in the Conceptual Framework and those developed in IPSAS, *Measurement*.
6. In principle staff agree. However, during the development of the CP, several measurement bases were identified in the Conceptual Framework that are not applied in the IPSAS suite of standards.
7. For the purposes of the CP, the Board agreed to develop additional guidance only for those measurement bases commonly applied in IPSAS.
8. However, given the work plan allows for the Conceptual Framework Limited Scope Update and the Measurement project to run in parallel, an opportunity exists to better align the Conceptual Framework with IPSAS, *Measurement*.

**Recommendation**

9. Staff recommends the Conceptual Framework Limited Scope Update and Measurement projects be run in parallel to allow the IPSASB to align, where appropriate, the Conceptual Framework with IPSAS, *Measurement*.

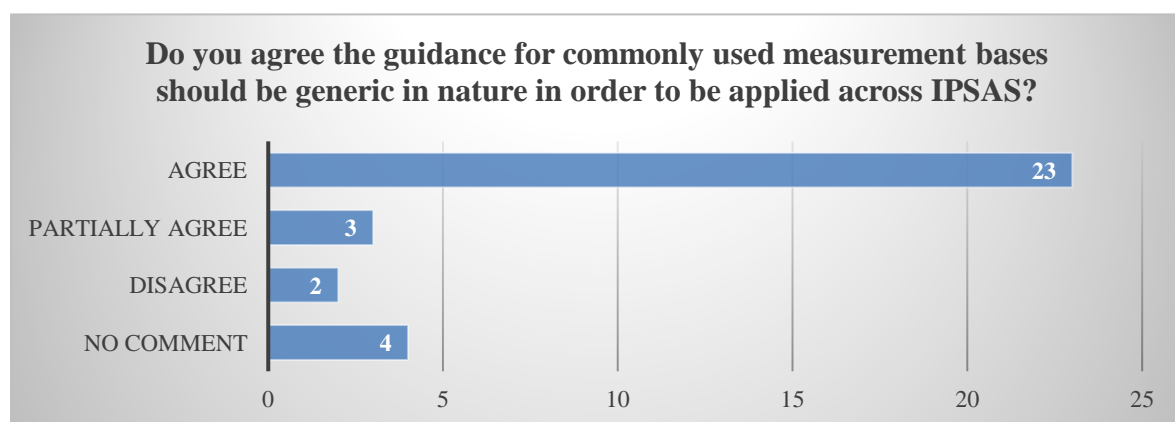
## Preliminary View 2

### Question

1. The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.:



### Agree

2. 23 respondents, or 72%, agreed (no issues noted).

### Partially Agree

3. 3 respondents, or 9%, partially agreed. Those who partially agreed noted:
  - (a) Respondent 24 and 28 suggested guidance should not be removed from individual IPSAS, even if general in nature, as it continued to support the measurement within that standard; and
  - (b) Respondent 28 continued, generic guidance should consider the unique aspects of measurement in different jurisdictions.

### Disagree

4. 2 respondents, or 6%, disagreed. Those who disagreed noted:
  - (a) Respondent 04 referred to its response to PV 1 noting developing application guidance for measurement should occur after the review of the Conceptual Framework project; and
  - (b) Respondent 15 noted it was unclear why an IPSAS, *Measurement* standard was necessary at all. They believed having specific guidance in each standard was appropriate.

**Staff Analysis**

5. There is strong support for the current structure of the guidance. Many respondents supported the idea of including generic measurement guidance in in one IPSAS and specific guidance in another.
6. In reviewing those response that disagreed, Staff did not see a compelling argument to deviate from the view proposed. Those that disagreed put forward a different view, but it was not supported by evidence the Board had not previously considered in developing its preliminary view.

**Recommendation**

7. Staff recommends continuing with the structure of the Illustrative ED in developing the ED. The ED will include generic measurement guidance.

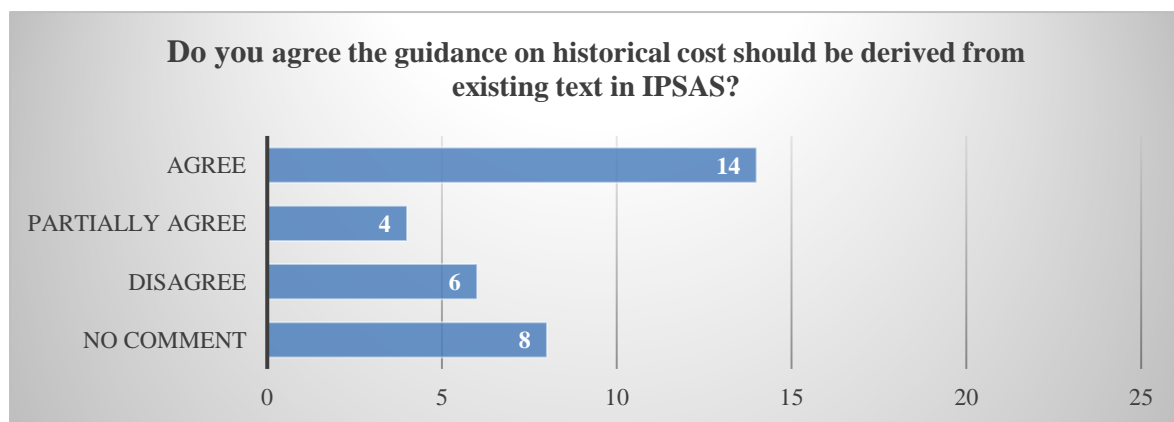
## Preliminary View 3

### Question

1. The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers [Appendix C: Historical Cost–Application Guidance for Assets](#), to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.



### Agree

2. 14 respondents, or 44%, agreed (no issues noted).

### Partially Agree

3. 4 respondents, or 13%, partially agreed. Those respondents that partially agreed, agreed with the historical cost application guidance section, but proposed several improvements to ensure it was more applicable in practice.

### Disagree

4. 6 respondents, or 19%, disagreed. Those that disagreed noted:
  - (a) Guidance historical cost is more appropriately located in IPSAS 16 and 17 rather than being consolidated in one measurement standard (Respondent 04);
  - (b) Sufficient guidance currently exists in IPSAS and allocation of further time is not the best use of resources (Respondent 15 and 24);
  - (c) Generic guidance should be in Chapter 7 of the Conceptual Framework (Respondent 28).

### No Comment

5. 8 respondents, or 25%, had no comment. The high rate of “no comment” impacted the percentage of respondents that agreed or partially agreed with the PV. Staff is unsure why there were so many “no comment” responses.

**Staff Analysis**

6. While there are only 14 respondents that agreed with the historical cost guidance, those that partially agreed supported the structure and provided suggestions on how to improve the appendix to increase its usefulness for stakeholders.
7. Of those that commented, 75% of respondents agreed or partially agreed (18 of 24 respondents). Those that disagreed did not indicate they disagreed with the guidance developed, but noted they believed the guidance should be in other IPSAS. Staff did not see a compelling argument to deviate from the view proposed. Those that disagreed put forward a different view, but it was not supported by evidence the Board had not previously considered in developing its preliminary view.

**Recommendation**

8. Staff recommends moving ahead with the historical cost approach proposed in the CP.
9. Staff recommends actioning respondent recommendations, as appropriate, to improve the appendix on historical cost for the ED.

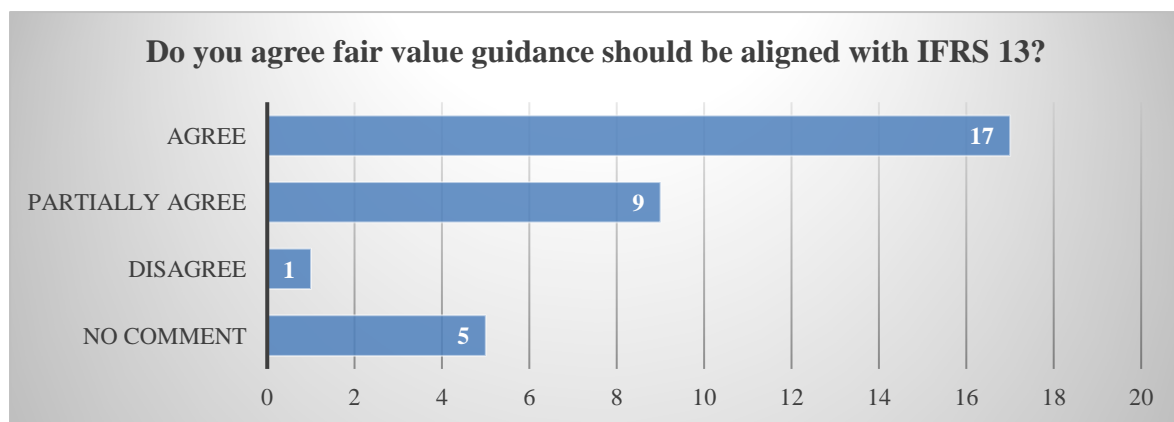
## Preliminary View 4

### Question

1. The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers [Appendix A: Fair Value—Application Guidance](#), to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.:



### Agree

2. 17 respondents, or 53%, agreed (no issues noted).

### Partially Agree

3. 9 respondents, or 28%, partially agreed. Those that partially agreed noted:
  - (a) To provide a fuller response, the respondent needs to understand how fair value would fit within the Conceptual Framework (Respondent 04 and 07, 20);
  - (b) The IPSASB needs to consider and address the linkages between fair value and market value (Respondent 06 and 07);
  - (c) The IPSASB needs to consider and address the linkages between replacement cost as a measurement basis and replacement cost as an input to fair value (Respondent 07); and
  - (d) The terms “most advantageous market” and “highest and best use” are not applicable in the public sector (Respondent 09, 20, 22 and 24).

### Disagree

4. 1 respondent, or 3%, disagreed. The respondent strongly urges the IPSASB to issue a separate IPSAS on fair value.

### Staff Analysis

5. While most respondents supported the fair value guidance, Staff is of the view there is still several areas that require the focus of the IPSASB:

- (a) Replacement cost;
  - (b) Highest and best use;
  - (c) Fair value vs Market value; and
  - (d) The place of fair value in the Conceptual Framework.
6. The Board was aware of the these inconsistencies when the CP was apporve. The Board concluded addressing these inconsistnecies with responses was the most efficient way to manage the project.
7. Many of these inconsistencies need to be considered and addressed within the context of the Conceptual Framework Limited Scope Update. With these projects now shceudle to operate in parallel, the Board can move forward to address these inconsisentices.

**Recommendation**

- 8. Staff recommends moving ahead with the fair value approach proposed in the CP.
- 9. Staff recommends actioning respondent recommendations, as appropriate, to improve the appendix on fair value for the ED.
- 10. Staff recommends addressing the inconsistencies in parallel with the work performed as part of the Conceptual Framework Limited Scope Update.



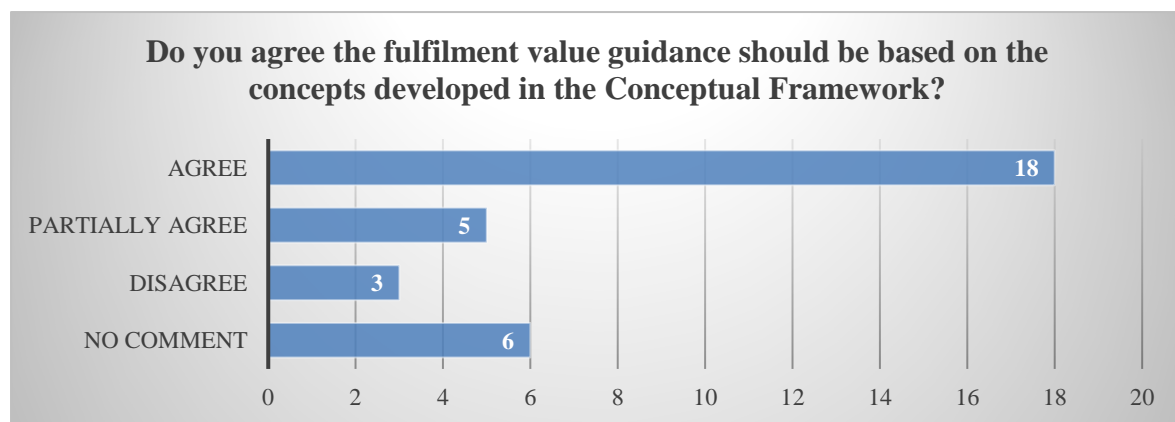
## Preliminary View 5

### Question

1. The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers [Appendix B: Fulfilment Value–Application Guidance](#), to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.



### Agree

2. 18 respondents, or 56%, agreed (no issues noted).

### Partially Agree

3. 5 respondents, or 16%, partially agreed. Those that partially agreed noted:
  - (a) Several improvements can be made to the guidance to ensure it is more robust and useful to the user of the guidance (Respondent 07, 09 and 31);
  - (b) A risk adjusted rate is not appropriate for discounting liabilities (Respondent 11).

### Disagree

4. 3 respondents, or 9%, disagreed. Those that disagreed noted:
  - (a) The terminology change from Cost of Fulfilment to Fulfillment Cost is significant and needs to be explored in further detail. Fulfillment cost uses a risk adjusted discount rate and cost of fulfillment does not (Respondent 04); and
  - (b) Since cost of fulfillment is a measurement basis for liabilities, specifically provisions, guidance should remain in that specific section (Respondent 24).

### Staff Analysis

5. Most respondents either agreed or partially agreed with the preliminary view.

6. Two respondents questioned whether including a risk component in the discount rate to determine the fulfillment value was appropriate. These respondents noted including a risk component:
  - (a) May overstate liabilities;
  - (b) May distort a faithful representation of relevant information to users of the financial statements about the extent to which the entity can settle its obligations;
  - (c) Is inconsistent with IPSAS 42 which explicitly indicates a risk premium is not included in the calculation of a social benefit liability; and
  - (d) Is overly complex and lacks clarity.
7. Given most respondents supported the fulfillment value guidance developed, Staff is of the view it is technically appropriate to include a risk component when determining fulfillment value. However, given the dissenting views put forward, additional analysis is required to determine what best reflects the measurement object associated with fulfillment value.

**Recommendation**

8. Staff recommends moving ahead with the fulfillment value approach proposed in the CP.
9. Staff recommends actioning respondent recommendations, as appropriate, to improve the appendix on fulfillment value for the ED.
10. Staff recommends performing further analysis to determine whether a risk component should be included in the measurement of fulfillment value.

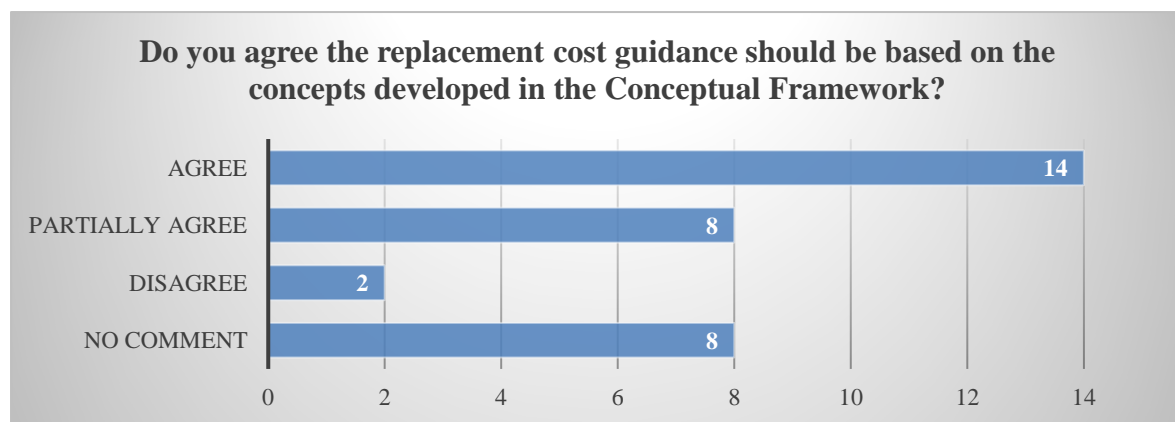
## Preliminary View 6

### Question

1. The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers [Appendix D: Replacement Cost–Application Guidance](#), to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.



### Agree

2. 14 respondents, or 44%, agreed (no issues noted).

### Partially Agree

3. 8 respondents, or 25%, partially agreed. Those that partially agreed noted:
  - (a) One of the methods used to determine fair value is the 'cost approach' which is based on the 'current replacement cost' of the asset. It is unclear whether the 'current replacement cost' in IFRS 13 is the same as the 'replacement cost' in Appendix D (Respondent 07, 20 and 24);
  - (b) The concepts brought forward in the replacement cost section are too closely aligned with the private sector guidance and they do not consider the public sector, for example, most economic cost is used, and this is not relevant for the public sector (Respondent 08);
  - (c) Appendix D is compiled from extracts from Chapter 7 of the IPSASB Conceptual Framework, with certain elaborations. In our opinion, the elaborations should be considered for inclusion in the Conceptual Framework (Respondent 28); and
  - (d) Comments on how the section could be improved (Respondents 06, 07 and 31).

### Disagree

4. 2 respondents, or 6%, disagreed. Those that disagreed noted:
  - (a) The application guidance developed outlining the calculation of replacement cost is unclear (Respondent 15); and

- (b) Comments on how the section could be improved (Respondents 26).

**Staff Analysis**

5. 69% of respondents agreed or partially agreed with the preliminary view.
6. Some respondents noted consistent with views raised in PV 4, replacement cost is a measurement basis in the Conceptual Framework and a measurement technique used to determine fair value:
7. The Board was aware of the this inconsistencies when the CP was approved. The Board concluded addressing this inconsistency with responses was the most efficient way to manage the project.
8. This inconsistency needs to be considered and addressed within the context of the Conceptual Framework Limited Scope Update. With these projects now scheduled to operate in parallel, the Board can move forward to address these inconsistencies.

**Recommendation**

9. Staff recommends moving ahead with the replacement cost approach proposed in the CP.
10. Staff recommends actioning respondent recommendations, as appropriate, to improve the appendix on replacement cost for the ED.
11. Staff recommends addressing the inconsistency in parallel with the work performed as part of the Conceptual Framework Limited Scope Update.

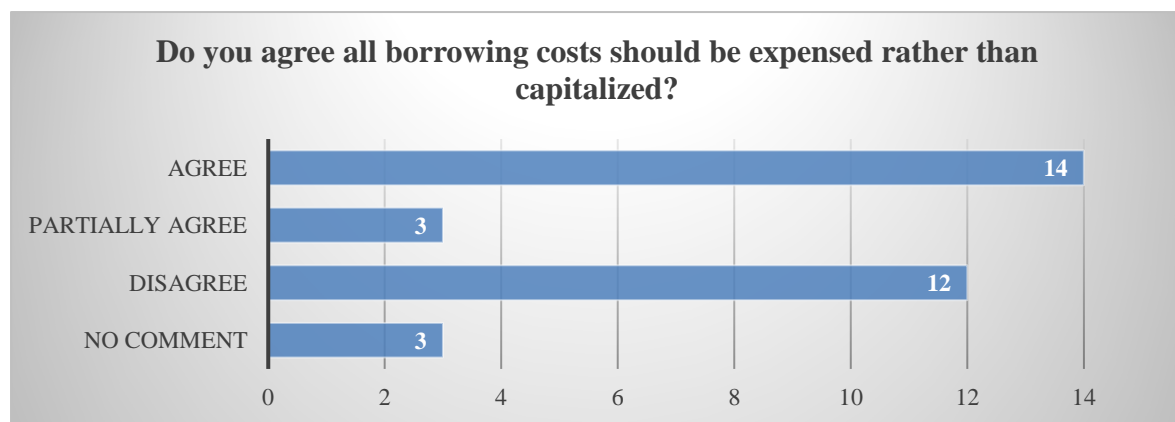
## Preliminary View 7

### Question

1. The IPSASB's Preliminary View is that 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 state which option you support and provide your reasons for supporting that option.



### Agree

2. 14 respondents, or 44%, agreed. Those that agreed did so for the following reasons:
  - (a) Borrowing costs relate to the funding of the asset rather than being an attribute of the asset itself or enhancing its economic benefits or service potential (Respondent 07, 11, 18);
  - (b) The centralized nature of public sector borrowing creates challenges in allocating borrowing costs (Respondent 17 and 32);
  - (c) Expensing borrowing costs will enhance comparability (Respondent 17);
  - (d) Creates convergence with GFS (Respondent 17).

### Partially Agree

3. 3 respondents, or 9%, partially agreed. Those that partially agreed did so for the following reasons:
  - (a) There are benefits to expensing all borrowing costs, however there are disadvantages as well. This is true of all options (Respondents 12, 19 and 28);
  - (b) It may be helpful to consider the fact preparers already follow two different approaches to balance between faithful representation and other qualitative characteristics of useful information, and these approaches are both supported by the IPSAS canon (Respondent 12); and
  - (c) It may be best to leave both options for comparability with the private sector (Respondent 28)

**Disagree**

4. 12 respondents, or 38%, disagreed. Those that disagreed did so for the following reasons:
- (a) Difficulties in attributing borrowing costs to specific projects in the public sector is exaggerated and is an insufficient reason to diverge from private sector accounting treatment. Large conglomerates in the private sector face similar challenges and are able to capitalize borrowing costs (Respondent 03, 04, 10, 13, 14, 20);
  - (b) By failing to include borrowing costs into the overall cost of the asset, there will be a failure to measure the cost of the asset to its service potential (Respondent 03, 14);
  - (c) Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset and are an entity-specific value (Respondent 04, 08, 20, 26)
  - (d) Enhances accountability and decision making by linking borrowing costs to assets by which borrowing costs is incurred (Respondent 10);
  - (e) Retaining the accounting policy choice to expense or capitalize meets the IPSASBs objectives (Respondent 14 and 15); and
  - (f) Immediate expensing of borrowing costs leads to inconsistency in treatment with the requirement to capitalize transaction costs directly attributable to the acquisition of an asset (Respondent 05).

**Staff Analysis**

5. Respondents were split between their support and opposition of the preliminary view. Given the split, the Board was not provided a clear direction forward from respondents.
6. Those respondents that supported their view, either in agreement or disagreement of the PV, with technical analysis had differing views on whether borrowing costs were an attribute of the cost of an asset. From a technical point of view, determining whether to capitalize or expense borrowing costs appears to be based on a conceptual view whether they are an attribute of cost. Both views appear to be valid.
7. From a public sector perspective, the CP proposed expensing borrowing costs to align with GFS and reduce the burden of allocating centralized borrowing. Since many respondents indicated this challenge is overstated, the public sector reasons for expensing are weaker than as set forth in the CP.
8. Maintaining the accounting policy choice in IPSAS 5 seems to be a reasonable alternative given:
- (a) The suggestion was provided by those who supported and those who opposed the IPSASB's preliminary view;
  - (b) Either expensing or capitalizing borrowing costs can be supported in the IPSASB's Conceptual Framework;
  - (c) It allows for alignment with IFRS or GFS depending on what the entity considers more appropriate for their circumstances; and

- (d) It appeases everyone as it provides users with the ability to best present their results to the users of the financial statements.

**Staff Analysis**

- 9. Staff recommends the accounting policy choice be maintained in IPSAS 5, *Borrowing Costs*.
- 10. Staff recommends Basis for Conclusion paragraphs be added to IPSAS 5 indicating the IPSASB has closed this issue and why it supports the accounting policy choice.

## Preliminary View 8

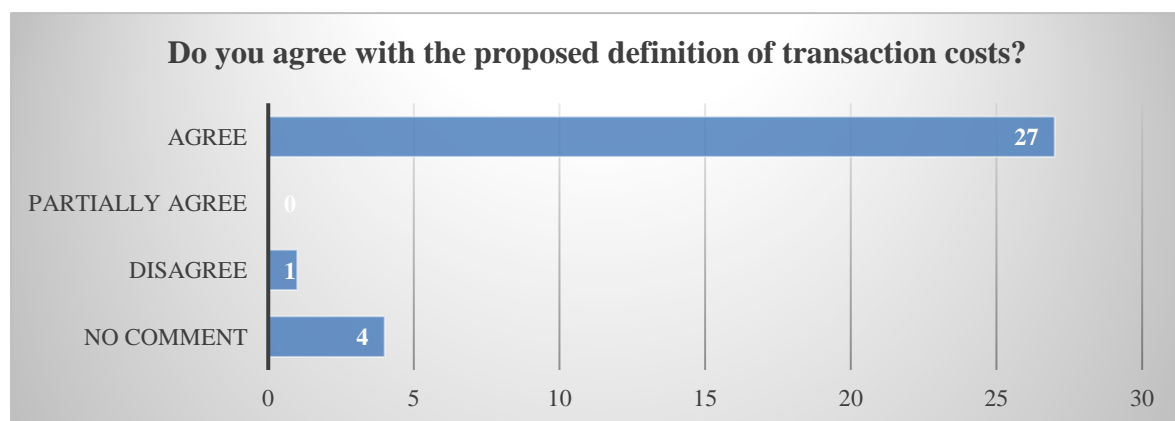
### Question

1. The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

**Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.



### Agree

2. 27 respondents, or 84%, agreed (no issues noted).

### Partially Agree

3. No respondents partially agreed.

### Disagree

4. 1 respondent, or 3%, disagreed. The respondent that disagreed noted:
  - (a) Changing the definition of transaction costs may have an impact on historical cost that has not yet been considered.

### Staff Analysis

5. Respondents nearly universally supported the Board's PV. The Board is aware of the item raised by respondent that disagreed and will ensure all aspects of IPSAS, *Measurement*, are considered holistically.

### Recommendation

6. Staff recommends the definition from the CP be carried forward to the ED.



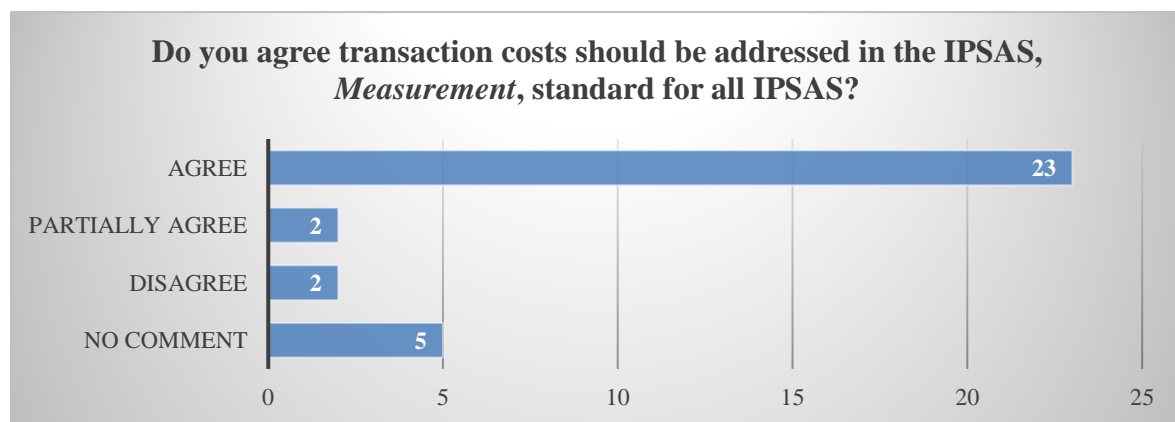
## Preliminary View 9

### Question

1. The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.



### Agree

2. 23 respondents, or 72%, agreed (no issues noted).

### Partially Agree

3. 2 respondents, or 6%, partially agreed. Those that partially agreed noted:
  - (a) Consideration may need to be given however for the special characteristics of financial assets and liabilities vs. operational assets and liabilities. As a sub-set of the latter, it is recommended consideration be given anyway to service potential vs. 'commercial' assets and liabilities (Respondent 05); and
  - (b) Including generic transaction costs guidance may result in confusion whether transactions costs are included or excluded from the measurement of the financial statement item (Respondent 29).

### Disagree

4. 2 respondents, or 6%, disagreed. Those that disagreed noted:
  - (a) Changing current practice will deviate from IFRS (Respondent 24); and
  - (b) The definition of transaction cost should be addressed in the Conceptual Framework, not the IPSAS on measurement (Respondent 28).

### No Comment

5. 5 respondents, or 16%, had no comment.

**Staff Analysis**

6. For those respondents that disagreed with the preliminary view, their views were considered by the IPSASB in proposing the development of generic transaction costs guidance. The IPSASB concluded the benefits of developing generic guidance outweighed the drawbacks of removing specific guidance from each IPSAS. Staff continue to support this view.
7. In reviewing those response that disagreed, Staff did not see a compelling argument to deviate from the view proposed. Those that disagreed put forward a different view, but it was not supported by evidence the Board had not previously considered in developing its preliminary view.

**Recommendation**

8. Staff recommends continuing with the view proposed in the consultation paper.

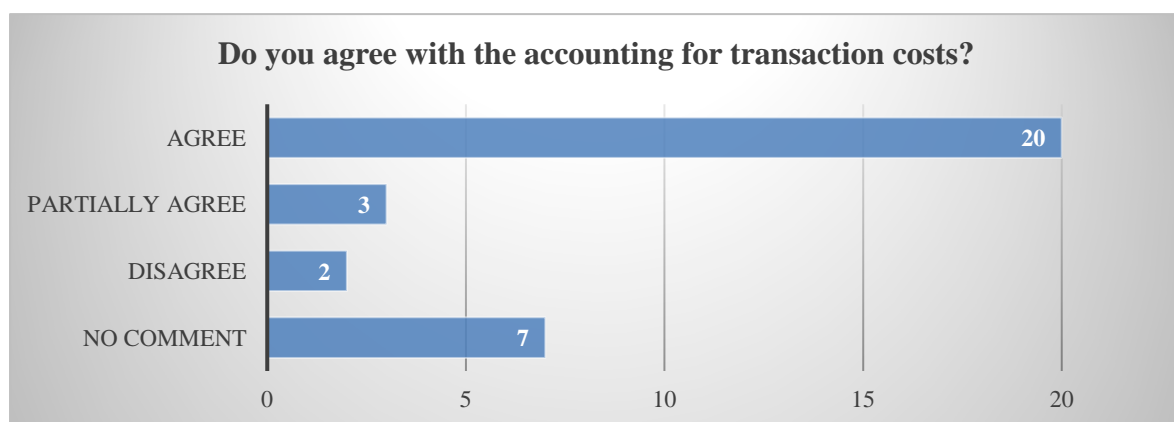
## Preliminary View 10

### Question

1. The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
  - Excluded in the valuation of liabilities measured at fulfillment value;
  - Excluded from the valuation of assets and liabilities measured at fair value; and
  - Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.



### Agree

2. 20 respondents, or 63%, agreed (no issues noted).

### Partially Agree

3. 3 respondents, or 9%, partially agreed. Those that partially agreed noted:
  - (a) The requirement to exclude transaction costs from fair value measurement is inconsistent with financial assets and financial liabilities measured at fair value through net assets/equity (Respondent 20 and 22); and
  - (b) Transaction costs are excluded from replacement cost in some jurisdictions. The IPSASB should consider consistency across all jurisdictions (Respondent 29).

### Disagree

4. 2 respondents, or 6%, disagreed. Those that disagreed noted:
  - (a) There is apparent confusion between the question of the extent to which a market participant would reflect transaction costs in calculating the price they would be prepared to pay or accept and the question as to whether transaction costs should be reflected in the

measurement for financial reporting purposes. The Preliminary View also incorrectly identifies historical cost as a type of valuation, rather than as a type of measurement (Respondent 06).

- (b) Transaction costs would be more readily understood if initial measurement and subsequent measurement are adopted, rather than measurement of transaction costs reflecting the timing of occurrence of transactions (when commencing and exiting the transactions). The initial measurement and subsequent measurement would also be more consistent with the timing of the accounting treatment in practice (Respondent 13).

### **Staff Analysis**

5. Staff does not believe the issues identified by respondents impacts the approach to accounting for transaction costs proposed in the CP.
  - (a) **Fair Value in IPSAS 41.** Paragraph 57 requires financial assets or liabilities be measured at fair value plus or minus transaction costs. This is an example of generic fair value guidance being included in IPSAS, *Measurement*, with specific guidance being included in IPSAS 41.
  - (b) **Replacement cost.** The Board concluded replacement cost was an entry price. As such, it is relevant to present the amount required to be transferred to replace the asset – this includes any transaction costs.
  - (c) **Price they would be prepared to pay or accept / whether transaction costs should be reflected in the measurement.** The respondent appears to suggest distinguishing the asset/liability from any transaction costs so that it is transparent in the statement of financial position. This was not considered by the IPSASB, however, seems to be onerous to apply in practice as it requires entities to track transaction costs at inception and throughout the life of the asset/liability.
  - (d) **Initial / Subsequent measurement.** the measurement guidance was developed to be neutral (neither initial nor subsequent measurement). This was done based on the assumption fair value is the same either initially or subsequently.
6. These items are specific in nature and will need to be considered holistically as the ED for IPSAS, *Measurement*, is finalized.

### **Recommendation**

7. Staff recommends continuing with the view proposed in the consultation paper.

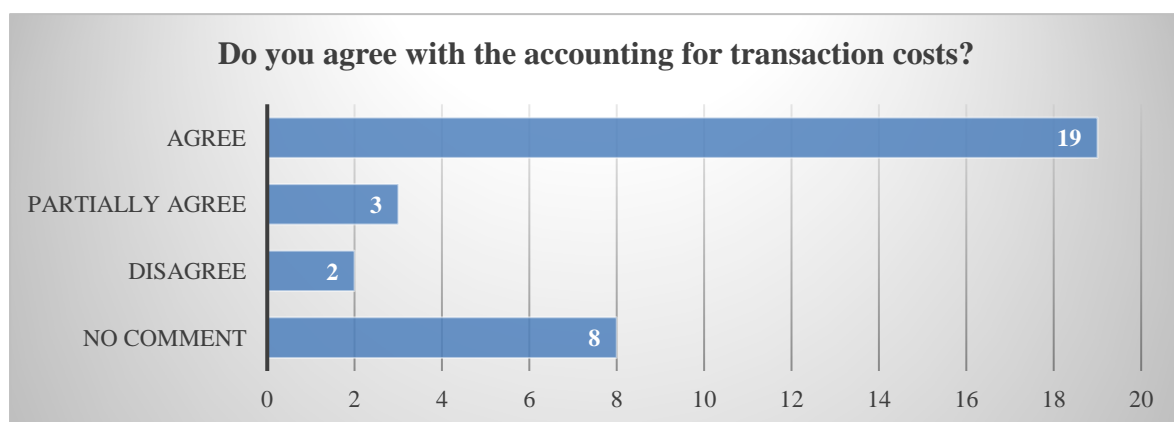
## Preliminary View 11

### Question

1. The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
  - Included in the valuation of liabilities measured at fulfillment value;
  - Excluded from the valuation of assets and liabilities measured at fair value; and
  - Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.



### Agree

2. 19 respondents, or 59%, agreed (no issues noted).

### Partially Agree

3. 3 respondents, or 9%, partially agreed. Those that partially agreed noted:
  - (a) The requirement to exclude transaction costs from fair value measurement is inconsistent with financial assets and financial liabilities measured at fair value through net assets/equity (Respondent 09 and 20);
  - (b) Transaction costs incurred when exiting a transaction should be included, in some cases, on initial recognition, however they may be a separate line item (Respondent 28).

### Disagree

4. 2 respondents, or 6%, disagreed. Those that disagreed were the same respondents that disagreed with PV 10. The reasons for disagreement were consistent with their response to PV 10:
  - (a) There is apparent confusion between the question of the extent to which a market participant would reflect transaction costs in calculating the price they would be prepared to pay or accept and the question as to whether transaction costs should be reflected in the

measurement for financial reporting purposes. The Preliminary View also incorrectly identifies historical cost as a type of valuation, rather than as a type of measurement (Respondent 06); and

- (b) Transaction costs would be more readily understood if initial measurement and subsequent measurement are adopted, rather than measurement of transaction costs reflecting the timing of occurrence of transactions (when commencing and exiting the transactions). The initial measurement and subsequent measurement would also be more consistent with the timing of the accounting treatment in practice (Respondent 13).

#### **Staff Analysis**

- 5. Staff does not believe the issues identified by respondents impacts the approach to accounting for transaction costs proposed in the consultation paper.
  - (a) **Fair Value in IPSAS 41.** paragraph 57 requires financial assets or liabilities be measured at fair value plus or minus transaction costs. This is an example of generic fair value guidance being included in IPSAS, Measurement, with specific guidance being included in IPSAS 41.
  - (b) **Price they would be prepared to pay or accept / whether transaction costs should be reflected in the measurement.** The respondent appears to suggest distinguishing the asset/liability from any transaction costs so that it is transparent for the financial statement users. This was not considered by the IPSASB, however, seems to be onerous to apply in practice as it requires entities to track transaction costs at inception and throughout the life of the asset/liability.
  - (c) **Initial / Subsequent measurement.** the measurement guidance was developed to be neutral (neither initial nor subsequent measurement). This was done based on the assumption fair value is the same either initially or subsequently.
- 6. These items are specific in nature and will need to be considered holistically as the ED for IPSAS, *Measurement*, is finalized.

#### **Recommendation**

- 7. Staff recommends continuing with the view proposed in the consultation paper.

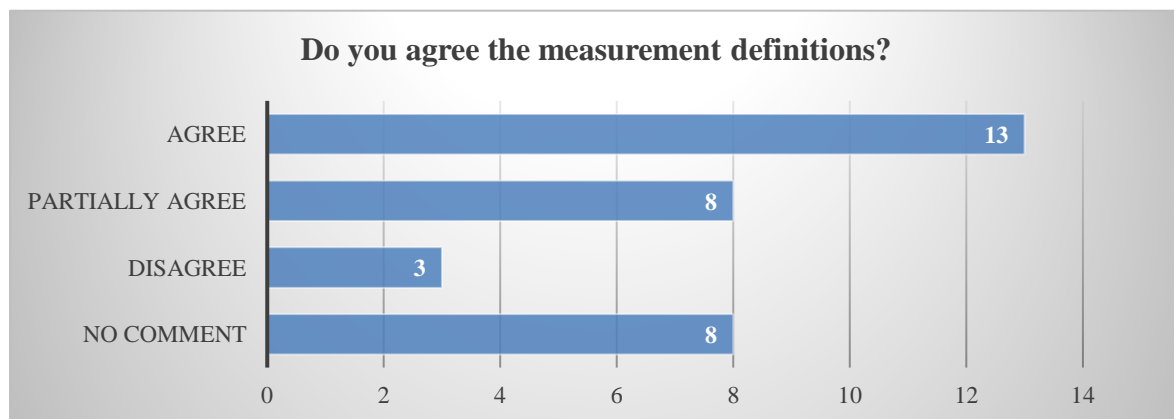
## Specific Matter for Comment 1

### Question

1. Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.



### Agree

2. 13 respondents, or 41%, agreed. Some of the respondents provided recommendations to improve the definitions included in the illustrative ED and how they are interpreted.

### Partially Agree

3. 8 respondents, or 25%, partially agreed. Those that partially agreed suggested including additional definitions or did not support all definitions and highlight those which needed reconsideration.

### Disagree

4. 3 respondents, or 9%, disagreed. Those that disagreed identified a substantial number of additional definitions to be considered by the IPSASB including:
  - (a) Natural events and/or climate emergency damage;
  - (b) Impairment and restoration;
  - (c) Consequential multi-period insurance proceeds;
  - (d) Revaluation policies attributable to intangible assets;
  - (e) Market value;
  - (f) Cost of release;
  - (g) Assumptions price;
  - (h) Cost of services;
  - (i) Operational capacity;

- (j) Financial capacity;
- (k) Impairment; and
- (l) Borrowing costs.

**No Comment**

5. 8 respondents, or 25%, had no comment.

**Staff Analysis**

6. Respondents, regardless of whether they agreed or disagreed, provided several suggestions for the IPSASB to consider in adding to or deleting from the definitions developed.
7. These definitions are specific in nature and will need to be considered holistically as the ED for IPSAS, *Measurement*, is finalized.

**Recommendation**

8. Staff recommends considering respondents' suggestions as part of the development of the ED.

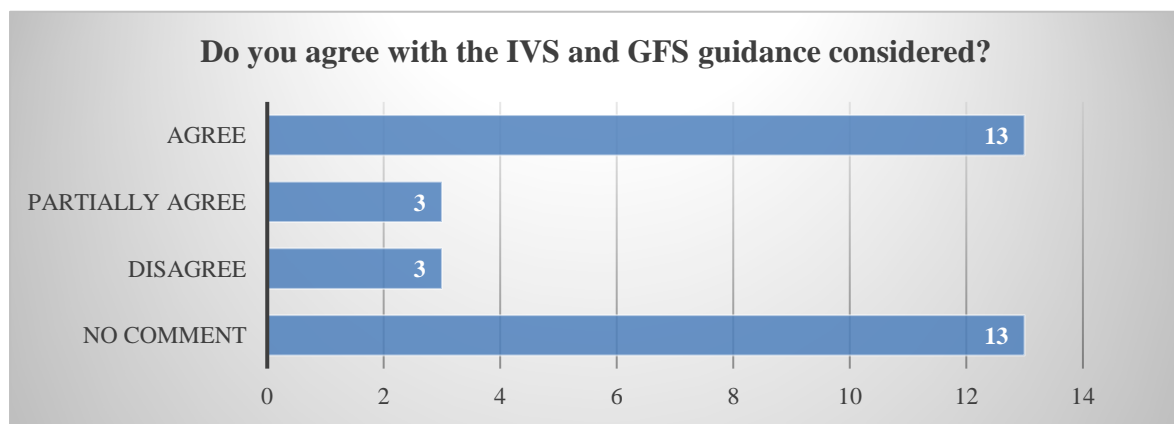


## Specific Matter for Comment 2

### Question

1. Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see [Addendum B](#))?



### Agree

2. 13 respondents, or 41%, agreed. Those who agreed generally supported further consideration of whether the concept of equitable value and synergistic value were appropriate for use in IPSAS.

### Partially Agree

3. 3 respondents, or 9%, partially agreed. Those that partially agreed identified additional concepts to consider in GFS and IVS for IPSAS, but also noted that there was no requirement for the three frameworks to be aligned.

### Disagree

4. 3 respondents, or 9%, disagreed. Those that disagreed noted:
  - (a) It was premature to include the concepts of equitable value and synergistic value in the measurement standard at this point (Respondent 04, 06 and 25).

### No Comment

5. 13 respondents, or 41%, had no comment. This represents a significant number of respondents and skews the results.

### Staff Analysis

6. Given the number of respondents that had not comment on this issue, Staff is of the view the concepts present in GFS and IVS were unfamiliar to the respondents targeted. Those that did

agree with the preliminary view also showed some unfamiliarity with the concepts and seemed to agree as it seems appropriate for the IPSASB to consider all concepts.

7. Whether synergistic value and equitable value should be included in IPSAS, *Measurement*, should be considered in the wider context of the measurement bases put forward in PV 1 and will have to be considered in the context of the Conceptual Framework Limited Scope Update.

**Recommendation**

8. Staff recommends addressing this issue in conjunction with PV 1 where all measurement basis will be considered in the context the Conceptual Framework Limited Scope Update.

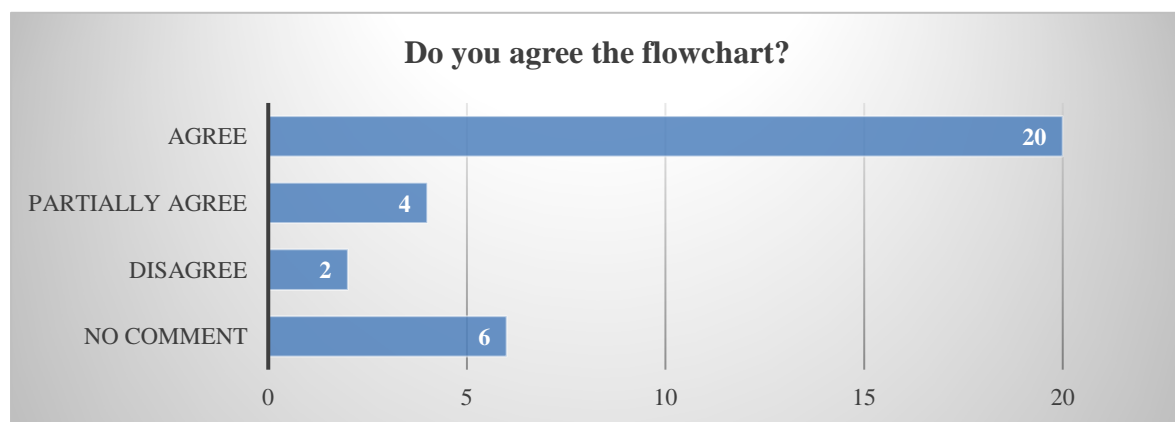
### Specific Matter for Comment 3

#### Question

1. Do you agree that the measurement flow charts ([Diagrams 4.1](#) and [4.2](#)) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.



#### Agree

2. 20 respondents, or 63%, agreed. Many offered minor suggestions to improve the operation of the flow charts.

#### Partially Agree

3. 4 respondents, or 13%, partially agreed. Those that partially agreed noted:
  - (a) Conceptually the diagrams are useful, however they are complex and lack understandability and lead to too many outcomes (Respondent 09 and 15).

#### Disagree

4. 2 respondents, or 6%, disagreed. Those that disagreed noted:
  - (a) The IPSAS valuation approach lacks the conceptual simplicity elegance of the GFS approach. The latter has a single valuation principle and everything else flows from this principle (Respondent 02); and

- (b) The IPSASB first needs to decide whether it is going to make any changes to the measurement bases in the Conceptual Framework, the objectives of those measurement bases and the circumstances in which their use would be appropriate (Respondent 04).

**Staff Analysis**

5. The suggested improvements and tweaks to the flow charts is an expected response to such an SMC.
6. The flow charts were designed to help the IPSASB review measurement requirements in existing IPSAS, and to develop new IPSAS. Staff has yet to apply, or test, the flow charts in the capacity they were designed for. As such, it is premature to make changes to them until they have been applied.
7. There are several suggestions that can be applied that would reduce the complexity and enhance the usefulness of the flow charts. These should be considered after the flow charts have been applied for their intended purpose.

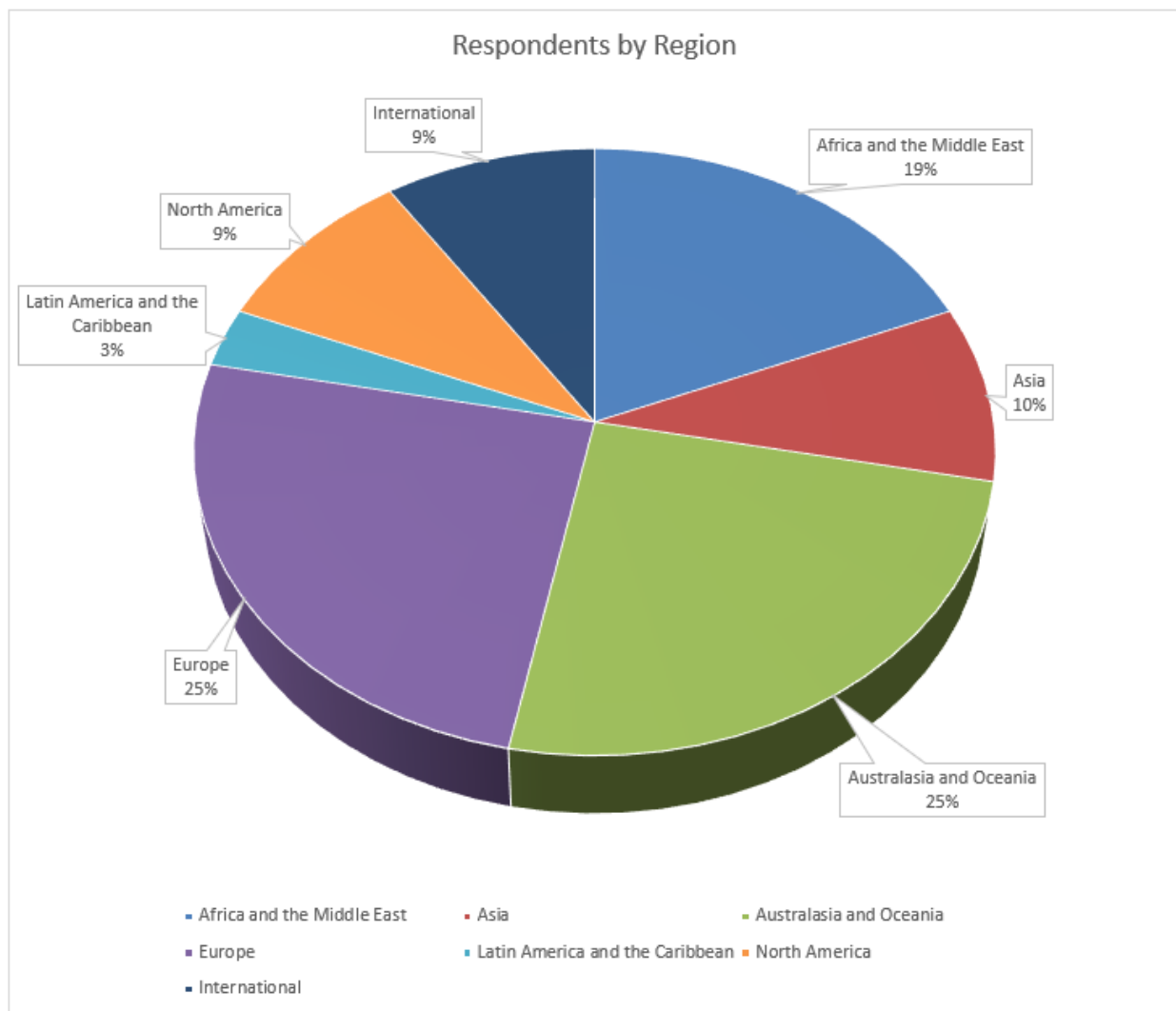
**Staff Analysis**

8. Staff recommends applying the flow charts to the IPSAS suite of standards to evaluate their effectiveness. Improvements, including those proposed by respondents should then be applied.

## Appendix A - Analysis of Respondents by Region, Function and Language

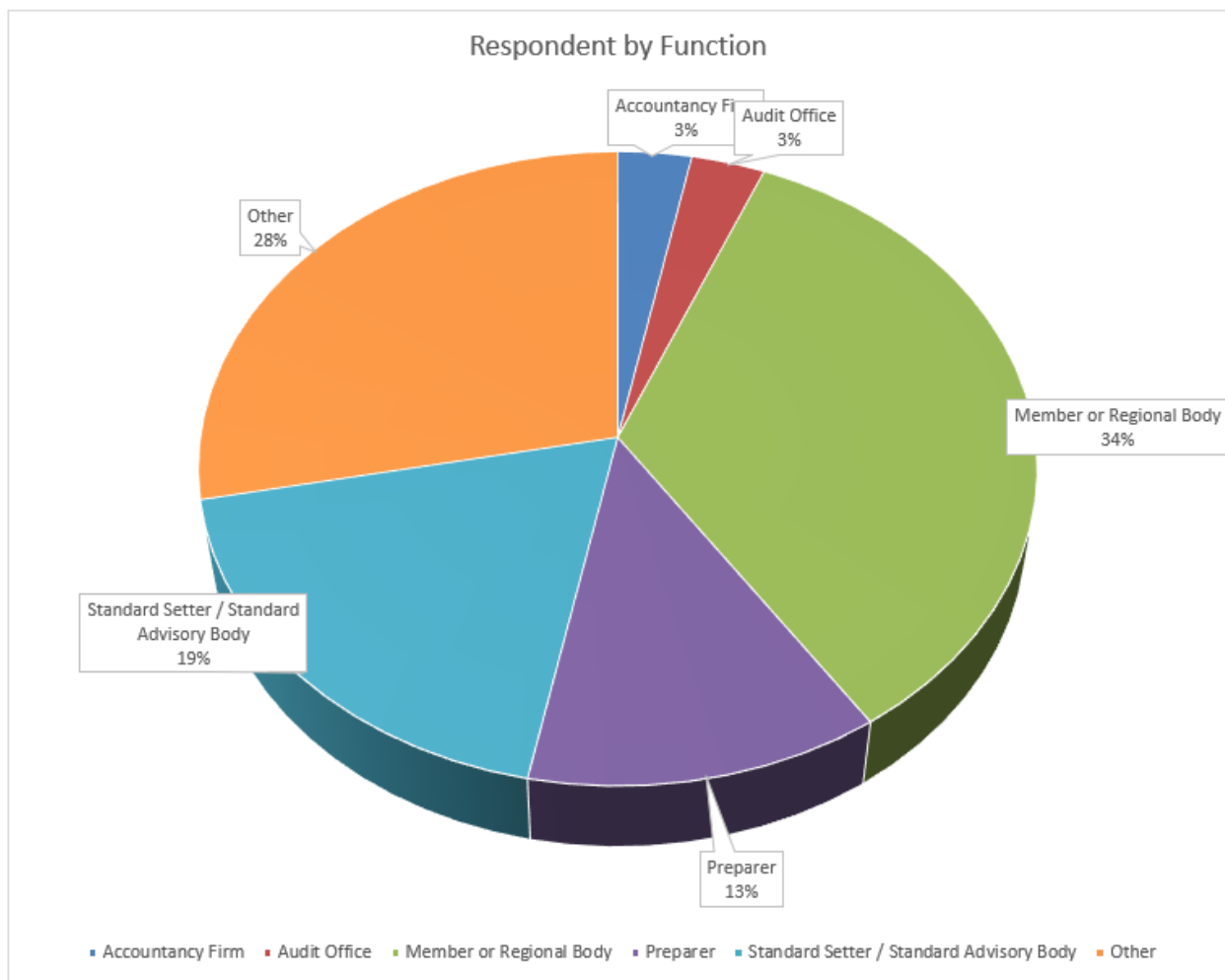
### Geographic Breakdown

Region	Respondents	Total
Africa and the Middle East	01, 07, 17, 18, 21, 32	6
Asia	10, 13, 30	3
Australasia and Oceania	04, 05, 15, 23, 24, 26, 27, 29	8
Europe	03, 06, 09, 12, 14, 19, 22, 25	8
Latin America and the Caribbean	20	1
North America	08, 11, 31	3
International	02, 16, 28	3
<b>Total</b>		<b>32</b>



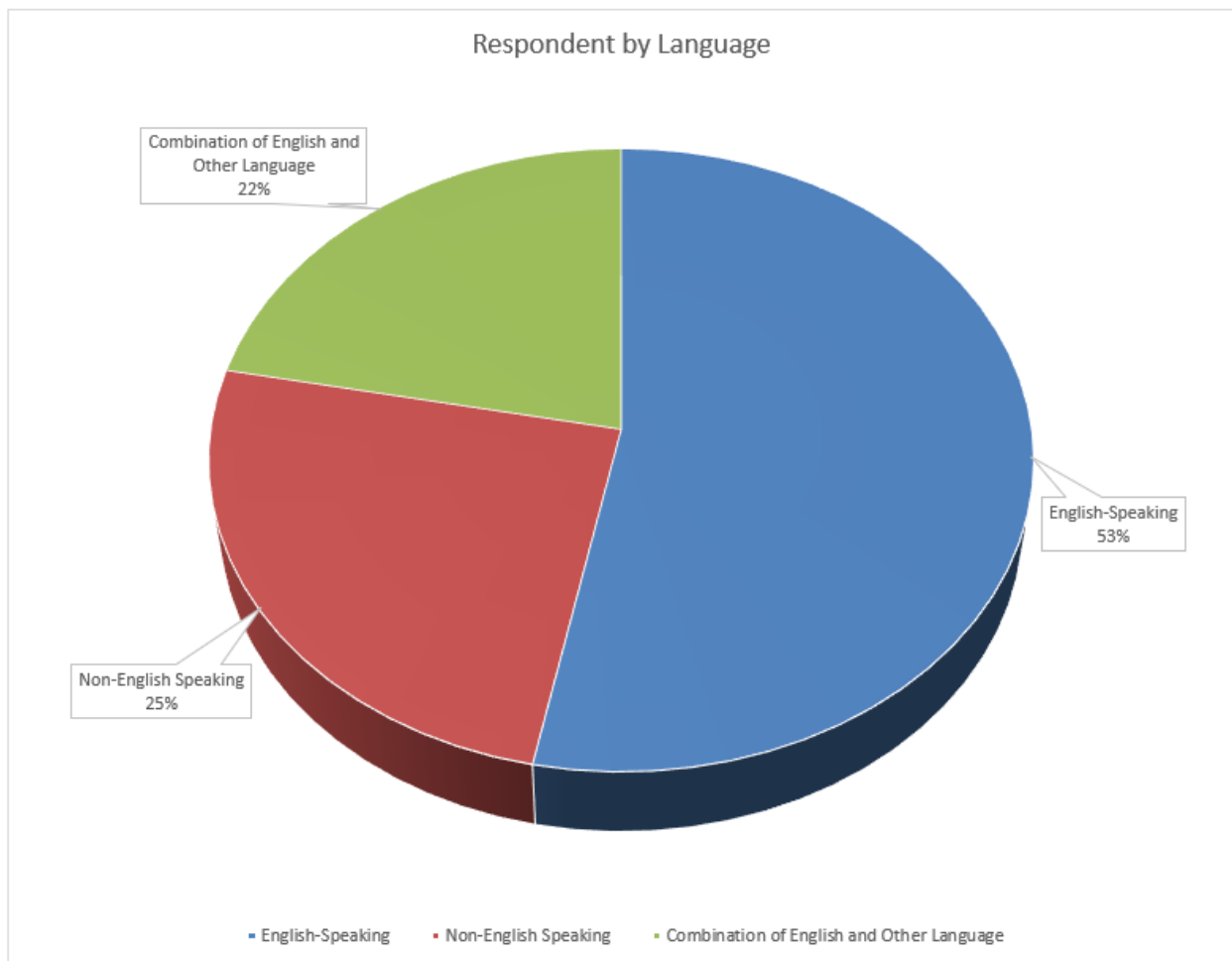
**Functional Breakdown**

Function	Respondents	Total
Accountancy Firm	16	1
Audit Office	18	1
Member or Regional Body	03, 10, 12, 13, 14, 15, 20, 21, 22, 30, 32	11
Preparer	08, 11, 19, 29	4
Standard Setter/Standards Advisory Body	04, 07, 09, 17, 25, 31	6
Other	01, 02, 05, 06, 23, 24, 26, 27, 28	9
<b>Total</b>		<b>32</b>



**Linguistic Breakdown**

Language	Respondents	Total
English-Speaking	02, 04, 05, 06, 07, 12, 14, 15, 17, 22, 23, 24, 26, 27, 29, 31, 32	17
Non-English Speaking	01, 09, 10, 13, 18, 20, 25, 30	8
Combination of English and Other	03, 08, 11, 16, 19, 21, 28	7
<b>Total</b>		<b>32</b>



## Appendix B - List of Respondents

Response #	Respondent	Country	Function
01	Halimeh Rahmani	Iran	Other
02	International Consortium on Governmental Financial Management (ICGFM)	Regional / International	Other
03	Accountancy Europe	Regional / International	Member or Regional Body
04	New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB)	New Zealand	Standard Setter / Standard Advisory Body
05	John Milne	New Zealand	Other
06	Valuology	United Kingdom	Other
07	Accounting Standards Board (ASB South Africa)	South Africa	Standard Setter / Standard Advisory Body
08	British Columbia (Office of the Comptroller General)	Canada	Preparer
09	Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)	Switzerland	Standard Setter / Standard Advisory Body
10	Korea Institute of Public Finance	Korea	Member or Regional Body
11	Treasury Canada	Canada	Preparer
12	Chartered Institute of Public Finance and Accountancy (CIPFA)	United Kingdom	Member or Regional Body
13	Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
14	Institute of Chartered Accountants in England and Wales (ICAEW)	United Kingdom	Member or Regional Body
15	Chartered Accountants Australia and New Zealand (CAANZ)	Australia	Member or Regional Body
16	Ernst & Young GmbH	Regional / International	Accountancy Firm
17	Public Sector Accounting Standards Board (PSASB)	Kenya	Standard Setter / Standard Advisory Body
18	National Board of Accountants and Auditors (Tanzania)	Tanzania, United Republic of	Audit Office
19	European Commission	Regional / International	Preparer
20	Conselho Federal de Contabilidade (CFC)	Brazil	Member or Regional Body
21	Pan African Federation of Accountants (PAFA)	Regional / International	Member or Regional Body
22	Association of Chartered Certified Accountants (ACCA)	United Kingdom	Member or Regional Body
23	Liquid	Australia	Other
24	David Hardidge	Australia	Other
25	Conseil de Normalisation des Comptes Publics (CNoCP)	France	Standard Setter / Standard Advisory Body
26	WSP Opus	New Zealand	Other
27	APV	Australia	Other
28	IRSPM A&A SIG, CIGAR Network, EGPA PSG XII	Regional / International	Other
29	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
30	Malaysian Institute of Accounting	Malaysia	Member or Regional Body
31	PSAB (Canada)	Canada	Standard Setter / Standard Advisory Body
32	ICAZ	Zimbabwe	Member or Regional Body



**Appendix C – Draft ED XX, Improvements to IPSAS 5, Borrowing Costs**

Exposure Draft XX  
Month, 2020  
*Comments due: Month [XX], [XXXX]*

IPSAS®

*Proposed International Public Sector Accounting Standard®*

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## Improvements to IPSAS 5, Borrowing Costs

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®).

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## REQUEST FOR COMMENTS

This Exposure Draft, Improvements to IPSAS 5, *Borrowing Costs*, 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](http://www.ipsasb.org). The approved text is published in the English language.

### Objective of the Exposure Draft

Exposure Draft (ED) XX, Improvements to IPSAS 5, *Borrowing Costs*, deals with non-substantive changes to IPSAS that arose through comments received from stakeholders in response to the IPSASBs Consultation Paper, *Measurement*.

Based on stakeholder responses, the IPSASB agreed to retain the existing policy choice whether to expense or capitalize qualifying borrowing costs. The IPSASB also agreed to enhance Application Guidance to better explain the concepts of qualifying asset and directly attributable.

### 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 Specific Matters for Comment requested for the Exposure Draft are provided below.

#### Specific Matter for Comment 1:

Do you agree with the IPSASBs proposal that the policy choice available to capitalize or expense borrowing costs directly attributable to a qualifying asset is appropriate for the public sector? If not, why not?

## Amendments to IPSAS 5, Borrowing Costs

Paragraphs 42F and AG1-AG16 are added. New text is underlined and deleted text is struck through.

...

### Effective Date

...

**42F. Paragraphs AG1-AG16 were added by *Improvements to IPSAS 5, Borrowing Costs* issued in [Month, Year]. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 20XX. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 20XX, it shall disclose that fact.**

...

## **Application Guidance**

*This Appendix is an integral part of the IPSAS 5.*

AG1. This application guidance is organized into the following categories:

- (a) Objective (paragraph AG2);
- (b) Scope (paragraph AG3);
- (c) Definitions (paragraphs AG4-AG7);
- (d) Borrowing Costs-Allowed Alternative Treatment (paragraphs AG8-AG19);

### **Objective**

AG2. To meet the objective, this [draft] Standard establishes principles and requirements for how an entity:

- (a) Recognizes borrowing costs; and
- (b) Discloses information relevant to borrowing costs incurred.

### **Definitions (see paragraph 5)**

#### *Borrowing Costs*

AG3. Borrowing costs may be attributable to the initial 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. Borrowing costs are entity-specific costs, which depend on the entity's financing decisions.

#### *Qualifying Asset*

AG4. A qualifying asset is one that necessarily takes a substantial period of time to be made ready for its intended use or sale. Qualifying assets are generally those that result from major development or construction projects. An asset that takes a long time to prepare for use or sale only because of ineffectiveness in the development process is not a qualifying asset.

AG5. Assets that are manufactured or otherwise over a short period of time, such as financial assets, and inventories, are not qualifying assets.

### **Borrowing Costs—Allowed Alternative Treatment (see paragraph 17-29)**

AG6. This Standard 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.

### **Borrowing Costs Eligible for Capitalization**

AG7. Borrowing costs eligible for capitalization may include:

- (a) Interest expense calculated under the effective interest rate method;
- (b) Finance charges in respect of a finance lease and service concession arrangement; and
- (c) Exchange differences to the extent they are regarded as an adjustment to interest costs.

AG8. The borrowings that are capitalized are those that would otherwise have been avoided if the expenditure on the qualifying asset had not been made. This includes interest on borrowings made specifically for the purpose of obtaining the qualifying asset (specific borrowing) and the cost of other borrowings that could have been repaid if the expenditure on the asset had not been incurred (general borrowings).

### **Specific Borrowings**

AG9. Where borrowings have been incurred specifically to fund an asset's construction, the costs of those borrowings cannot be capitalized in the period before the commencement of the activities necessary to get the asset ready for use. While these activities would often coincide with the commencement of the asset's physical construction, they also encompass more than the asset's physical construction. They include technical and administrative work prior to the commencement of physical construction. However, they exclude holding the asset when no production or development that changes the asset's condition is being undertaken.

AG10. If a borrowing can be specifically associated with expenditures on construction or production of the asset, the amount of borrowing costs capitalized is limited to the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

### **General Borrowings**

AG11. Where funds are borrowed centrally and used for financing the asset's construction or production, the amount of borrowing costs eligible for capitalization should be determined by applying a capitalization rate to the expenditure on the asset.

AG12. The capitalization rate should be the weighted average of the borrowing rates applicable to the borrowings of the entity that are outstanding during the period, other than the borrowings made specifically for the purpose of obtain a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowings costs incurred during the period.

### **Centralized Borrowing**

AG13. Borrowing in the public sector is often centralized through central management of the treasury function and borrowing requirements are often 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. Centralized borrowing may be for investing activities or, in a situation where governments may budget for a deficit, for financing or operating activities.

- AG14. Furthermore, governments often borrow at a level to fund their aggregate activities or for macro-economic management purposes, so that borrowings are not attributable to a specific expenditure. 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 (e.g., taxes, grants, etc.). Thus, there is often no meaningful way to attribute borrowing costs to qualifying assets.
- AG15. It may be appropriate in some cases to include all borrowing of an economic entity when calculating the weighted average borrowing costs, particularly when the treasury function is managed centrally, and its borrowings are generally at similar rates. However, only those borrowing costs applicable to the borrowings of the entity may be capitalized. When a controlling entity borrows funds that are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalize only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest-free capital contribution or capital grant, it will not incur any borrowing costs, and consequently will not capitalize any such costs.
- AG16. In other cases, where an entity is responsible for managing its own treasury function to finance its capital expenditure, it may be appropriate for each controlled entity to calculate the weighted average applicable to its own borrowings.

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, IPSAS 5.*

...

### **Revision of IPSAS 5 as a result of the IPSASB's Consultation Paper, *Measurement*, issued in April 2019**

- BC3. In April 2019, the IPSASB published a Consultation Paper, *Measurement*. The consultation paper proposed a comprehensive framework outlining how measurement bases should be determined when applied in the context of IPSAS. One of the objectives of the consultation paper was to consider the existing requirements on accounting for borrowing costs in IPSAS 5, *Borrowing Costs*.
- BC4. The Consultation Paper discussed the accounting policy choices permitted in IPSAS 5 for accounting for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset: capitalization or immediate recognition as an expense.
- BC5. The Board proposed to eliminate the option to capitalize borrowing costs in order to:
- (a) Address a public sector issue where borrowing is centralized and determined for the economic entity as a whole. Expensing borrowing costs lessens the burden of attributing centralized borrowing costs to specific projects within the public sector;
  - (b) Enhance comparability between the cost of asset acquisitions, productions or constructions between public sector entities; and

- (c) Align more closely with the requirements in the Government Finance Statistics Manual.
- BC6. In developing its preliminary view, the Board acknowledged the complexity of the issue. This complexity and opposing views on what should be included in cost, resulted in responses to the preliminary view being split with many respondents supporting the Board's proposal, and equally, many respondents disagreeing with the view proposed. Those that disagreed noted the reasons to remove the existing accounting policy choice were insufficient, arguing that:
- (a) Difficulties in attributing borrowing costs to specific projects in the public sector are exaggerated and are an insufficient reason to diverge from private sector accounting treatment. Large conglomerates in the private sector face similar challenges and are able to capitalize borrowing costs;
  - (b) Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset. During the period when an asset is under development, the expenditures for the resources used must be financed. Financing has a cost. The cost of the asset should include all costs necessarily incurred to get the asset ready for its intended use or sale, including the cost incurred in financing the expenditures as a part of the asset's acquisition cost.;
  - (c) Capitalizing of borrowing costs enhances accountability and decision making by linking the costs to assets they were incurred to acquire, construct or develop; and
  - (d) Immediate expensing of borrowing costs leads to inconsistency in treatment with the requirement to capitalize transaction costs directly attributable to the acquisition of an asset.
- BC7. Having reviewed the responses, the Board concluded the existing accounting policy best represented the diversity in views and should be maintained.
- BC8. The Board observed the existing accounting policy choice is consistent with the measurement principles in the Conceptual Framework and allows preparers of public sector financial statements to weigh the qualitative characteristics of useful information when selecting an approach that most faithfully represents the cost of the asset.
- BC9. Further supporting its conclusion to maintain the accounting policy choice, the Board noted the following:
- (a) The technical merits of capitalizing borrowing costs or expensing borrowing costs both have value. In some cases, such as whether borrowing costs are an attribute of the cost of an asset, respondents took different positions;
  - (b) The goal of the approach when accounting for borrowing costs is to assist financial statement users in obtaining the most suitable valuation of an asset, which may in some cases include borrowing costs;
  - (c) While at certain levels of government the allocation of borrowing costs is challenging, at other levels, such as at local governments, it can be relatively straightforward;
  - (d) Capitalization of borrowing costs would align with IFRS where that is an economic entity's preferred approach, whereas the expensing of borrowing costs would demonstrate alignment with GFS if that is an economic entity's preferred approach; and
  - (e) There must be a clear benefit to expensing borrowing costs. Since there are unavoidable costs in eliminating an accounting policy choice, the Board carefully considers the costs and



benefits of any new pronouncement. In this case, the Board has not been told that preparers who elected to capitalize borrowing costs under IPSAS 5 found doing so unnecessarily burdensome.

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