

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: September 14–18 and 22, 2020

Agenda Item 7

For:

☐ Approval

☒ Discussion

☐ Information

ED 76 AND ED 77, CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE AND MEASUREMENT

Project summary	<p>The project objective is to:</p> <ul style="list-style-type: none"> Update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility and prevalence, with an emphasis on the first three of these criteria; and Revise IPSAS requirements for measurement, provide guidance on measurement and address the treatment of transaction costs and borrowing costs. 	
Board sponsor	<ul style="list-style-type: none"> David Watkins, IPSASB Technical Advisor 	
Measurement Task Force members	<ul style="list-style-type: none"> David Watkins, IPSASB Technical Advisor (Task Force Chair) Takeo Fukiya, IPSASB Technical Advisor Francesco Capalbo, Second University of Naples Steve Choi, RICS (Alternate while David Tretton is absent) 	
Meeting objectives	Topic	Agenda Item
Project management	ED 76 and ED 77, Conceptual Framework-Limited Scope Update and Measurement: Project Roadmap	7.1.1
	Instructions up to Previous Meeting	7.1.2
	Decisions up to Previous Meeting	7.1.3
Decisions required at this meeting	Coordinators Report of Cross-Cutting Issues	7.2.1
	Measurement Hierarchy Application	7.2.2
	Measurement Basis – Fulfillment Value vs. Cost of Fulfillment	7.2.3
	Measurement Techniques papers	
	Current Value Model Measurement Techniques	7.2.4
	Historical Cost Model Measurement Techniques	7.2.5
	What is Market Approach?	7.2.6
	Market Approach Use	7.2.7
	What is Income Approach?	7.2.8

	Income Approach Use	7.2.9
	What is Cost Approach?	7.2.10
	Replacement Cost Compared with Cost Approach	7.2.11
	Service Capacity Compared with Service Potential	7.2.12
	Cost Approach Use	7.2.13
	Presenting Measurement Techniques in ED, <i>Measurement</i>	7.2.14
	Measurement Bases Papers	
	Guidance on Historical Cost Measurement Basis	7.2.15
	What is Current Cost?	7.2.16
	What is Value in Use?	7.2.17
	Other Measurement Bases Papers	
	Cost of Release	7.2.18
	Assumption Price	7.2.19
	Net Selling Price	7.2.20
	Measurement Objective	7.2.21
	Measurement Basis for Hybrid Use Assets	7.2.22
	Measurement Basis for Assets in the Same IPSAS Held for Differing Capacities	7.2.23
	Structure of ED 77, <i>Measurement</i>	7.2.24
	Improvements to Replacement Cost Guidance (Theme F)	7.2.25
	Improvements to Historical Cost Guidance (Theme F)	7.2.26
	Improvements to Fair Value Guidance (Theme F)	7.2.27
	Improvements to Fulfillment Value Guidance (Theme F)	7.2.28
Other supporting items	Supporting Documents 1 – ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	7.3.1
	Supporting Documents 2 – ED 77, <i>Measurement</i>	7.3.2
	Supporting Documents 3 – Table Summarizing Appropriateness of Fair Value in IPSAS (Updated)	7.3.3
	Supporting Documents 4 – Updated Issues Log	7.3.4
	Unedited Responses – Replacement Cost	7.3.5
	Unedited Responses – Historical Cost	7.3.6
	Unedited Responses – Fair Value	7.3.7
	Unedited Responses – Fulfillment Value	7.3.8

ED 76 AND ED 77, CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE AND MEASUREMENT: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Conceptual Framework – Limited Scope Update	
March 2020	1. Approval of Limited Scope Update of Conceptual Framework Project Brief
June 2020	1. Discussion of Issues
September 2020	1. Discussion of Issues 2. Discuss proposed consequential amendments 3. Review [draft] Exposure Draft
December 2020	1. Approve Exposure Draft ¹
Measurement	
March 2019	2. Approve Consultation Paper and Illustrative Exposure Draft
June 2019	1. Document out for comment
September 2019	1. Document out for comment
December 2019	2. 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
September 2020	1. Discussion of Issues 2. Discuss proposed consequential amendments 3. Review [draft] Exposure Draft
December 2020	2. Approve Exposure Draft

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

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Coordination of Cross Cutting Issues		
June 2020	1. Develop communications plan for inter-related projects for discussion at December meeting.	1. To be developed for December 2020 meeting.
June 2020	2. If possible, provide members with EDs for conceptual framework, measurement and update to PP&E in stages throughout summer (one package right before meeting is difficult to review).	2. ED 78, PP&E, was provided in July 2020 to address instructions raised by the IPSASB in June 2020.
June 2020	3. Provide a brief progress update on measurement and infrastructure during the July 28 Virtual Board Check-In.	3. Provided brief update as part of ED 78 Agenda Item in July 2020.
Conceptual Framework – Limited Scope Update		
June 2020	1. Review terminology throughout “hierarchy” for consistency and understandability.	1. In process. Staff expects concepts to be finalized after September 2020 meeting. Q4 focus will be elevating the quality of the EDs (including consistency of terminology)
June 2020	2. Include measurement techniques under the Historical Cost basis.	2. Amortized cost is allocated to the historical cost measurement basis (see Agenda Item 7.2.5)
June 2020	3. Enhance the description of market value and consider under which bases it should be applied as a technique.	3. Market approach has been defined (see Agenda Item 7.2.6) Market approach has been allocated to fair value and current cost (see Agenda Item 7.2.7)
June 2020	4. Maintain measurement objectives when selecting a measurement basis.	4. Measurement objectives have been retained (see Agenda Item 7.2.21)
June 2020	5. As part of work to develop / consolidate guidance on Measurement Techniques, carry out additional analysis for September 2020 meeting in order to inform a decision on whether VIU is the same in practice as other measurement techniques, whether it continues to be needed for non-cash generating units, and if so, whether it is a basis or technique.	5. See Agenda Item 7.2.17 .

June 2020	6. Analyze which existing bases in the Conceptual Framework are not retained and develop BCs for review by IPSASB explaining the reason for not retaining them.	6. Cost of Release (see Agenda Item 7.2.18) Assumption Price (see Agenda Item 7.2.19) Net Selling Price (see Agenda Item 7.2.20)
June 2020	7. As part of ED Measurement work, analyze which measurement techniques are applied when estimating current cost. Develop a paper identifying and describing these measurement techniques.	7. Techniques are identified and described (see Agenda Item 7.2.4) Measurement techniques are allocated to current cost (see Agenda Item 7.2.7 , 7.2.9 and 7.2.13)
June 2020	8. Clarify what a “modern equivalent asset” is when determining current cost.	8. See paragraphs 34, A38, E5 and E6 in ED, Measurement .
June 2020	9. Analyze whether terms such as cost approach and depreciated replacement cost are synonymous with replacement cost. Develop consistent terminology, and where not possible, clarify the need and rationale for continued use.	9. Cost approach and replacement cost are consistent concepts (see Agenda Item 7.2.11)
June 2020	10. Develop BCs to explain why the concepts of equitable / synergistic values are similar to concepts that already exist in the Conceptual Framework, and so should be excluded from IPSASB literature.	10. See ED, Conceptual Framework paragraphs BC7.89 – BC7.92
June 2020	11. Recommend guidance for IPSASB to consider. Remove from Tables 1 and 2 in Chapter 7 the column on Entry / Exit. Consider need for retention / revision of paragraphs 7.8 and 7.9 from Chapter 7 of the current Conceptual Framework.	11. See ED, Conceptual Framework paragraphs 7.55 – 7.58
June 2020	12. Enhance existing principles indicating the selection of measurement bases is dependent on the measurement objective.	12. Principles enhanced (see Agenda Item 7.2.21)
Measurement		
June 2020	1. Determine ordering of sub-headings for application guidance in ED Measurement (public sector relevance, models, asset/liability, alphabetical, etc.).	1. Core text to reflect principles for measurement bases and techniques. AGs to expand on principles (see Agenda Item 7.2.14)

June 2020	2. Determine how to present Measurement Techniques when the same technique is relevant to multiple Measurement Bases, considering any nuances of application in relation to different bases, and whether generic guidance is better presented in a separate Appendix or Appendices.	2. Generic measurement technique guidance is in core text. Specific application guidance when applying the measurement technique to estimate the measurement bases is in the related AG (see Agenda Item 7.2.14)
June 2020	3. Analyze the existing guidance in IPSAS and recommend whether additional clarification is required when determining primary measurement objective in cases where entities: <ul style="list-style-type: none"> ▪ hold different assets for both operational and financial capacity reasons [IPSAS 12, 21, 26]; or • may not always hold them for the same purposes as other items in the scope of the same IPSAS or as held by its controlling entity [IPSAS 17, 31, 35, 40]. 	3. See Agenda Items 7.2.22 and 7.2.23 .
June 2020	4. Conduct Fair Value analysis for Revenue and PP&E IPSAS / EDs to understand impact of removing Fair Value in particular instances, as proposed in these two ongoing projects.	4. See updated table in Agenda Item 7.3.3 .
June 2020	5. Write a short paper recommending how to address the “grey area”, when entities hold both cash and non-cash generating assets as they pertain to primary measurement objective, including whether use of the term fair value is consistent with IFRS 13, and any other existing IPSAS guidance for constituents to consider.	5. See Agenda Item 7.2.22 .
June 2020	6. Develop BCs explaining why the IPSASB favors determining measurement bases in consideration of the primary measurement objective, as opposed to whether the item is specialized for the public sector.	6. See BC17-BC20 in Agenda Item 7.3.2 .
June 2020	7. Action non-conceptual concerns identified by respondents related to Fair Value, as proposed in paragraph 4 of Agenda Item 7.2.4.	Fair Value (See Agenda Item 7.2.27)

June 2020	8. Action non-conceptual concerns identified by respondents related to Fulfillment Value, as proposed in paragraph 4 of Agenda Item 7.2.5.	7. Fulfillment Value (See Agenda Item 7.2.28)
June 2020	9. Analyze whether to adopt the term Fulfillment Value, or whether to retain Cost of Fulfillment on the basis of its relevance to the public sector (specifically consider least costly amount and risk premium).	8. See Agenda Item 7.2.3
June 2020	10. Action non-conceptual concerns identified by respondents related to Historical Cost, as proposed in paragraph 4 of Agenda Item 7.2.6.	9. Historical Cost (See Agenda Item 7.2.26)
June 2020	11. Action non-conceptual concerns identified by respondents related to Replacement Cost, as proposed in paragraph 4 of Agenda Item 7.2.7.	10. Replacement Cost (See Agenda Item 7.2.25)
June 2020	12. See agenda item 6.2.4 - clarify what a “modern equivalent asset” is when determining current cost.	11. See paragraphs 34, A38, E5 and E6 in ED, Measurement .
June 2020	13. Address suggested wording changes received out of session from members and TAs, and prepare separate ED for approval at the September 2020 meeting.	12. See ED 74, <i>Amendments to IPSAS 5, Borrowing Costs</i> (Agenda Item 4)

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Coordination of Cross Cutting Issue		
June 2020	1. No decisions	1. Not applicable
March 2020	2. Not applicable – This Agenda Item is new for June 2020. It summarizes the process followed by staff in managing the Measurement and CF-LSU projects holistically. Decisions are included in the specific Agenda Items related to each project.	2. Not applicable
Conceptual Framework – Limited Scope Update		
June 2020	1. The Measurement “hierarchy” in the ED should comprise Measurement Models, Measurement Bases and Measurement Techniques.	1. See ED, Conceptual Framework paragraphs BC7.51 – BC7.54
June 2020	2. Market Value is not be a Measurement Basis, but is a Measurement Technique.	2. See ED, Conceptual Framework paragraphs BC7.64
June 2020	3. The Measurement Bases are Historical Cost, Fair Value, Fulfillment Value (or Cost of Fulfillment), and Current Cost, and each Basis should be defined in the IPSASB Conceptual Framework.	3. See ED, Conceptual Framework paragraphs BC7.59 – BC7.63
June 2020	4. Replacement Cost should be applied as a Measurement Technique rather than a Measurement Basis.	4. See ED, Conceptual Framework paragraphs BC7.65 – BC7.66
June 2020	5. Equitable value and synergistic value will be excluded from IPSAS, Measurement and the Conceptual Framework.	5. See ED, Conceptual Framework paragraphs BC7.89 – BC7.92
June 2020	6. The entry/exit distinction should be discussed at a high-level in the IPSASB Conceptual Framework.	6. See ED, Conceptual Framework paragraphs BC7.55 – BC7.58
June 2020	7. Selection of measurement bases should be linked to the measurement objective (especially financial capacity / operational capacity) rather than to entry/exit values.	7. See ED, Conceptual Framework paragraphs BC7.49 – BC7.50
March 2020	8. Approve the project brief and outline subject to drafting and editorial amendments including making the brief less measurement-centric and considering the change of terminology from cost of fulfilment to fulfillment value in Key Issue #2.	8. Draft paragraphs in June 2020 Agenda Item 6.3.2.

Measurement		
June 2020	<ol style="list-style-type: none"> The location of measurement guidance should be as follows: <ul style="list-style-type: none"> Conceptual Framework. Provides guidance on measurement models and measurement bases. ED, Measurement. Provides guidance on measurement bases and measurement techniques. IPSAS Suite of Standards. Guidance is provided at the measurement basis level. 	<ol style="list-style-type: none"> EDs on Conceptual Framework and Measurement have been developed based on IPSASBs structural decision. See ED, Conceptual Framework and ED, Measurement.
June 2020	<ol style="list-style-type: none"> Use of the term Fair Value is consistent with the IFRS 13-based definition to be included in Conceptual Framework and Measurement in IPSAS 16, 27, 34, 39, and 41. Use of the term Fair Value is not appropriate in IPSAS 32 and will need to be replaced in accordance with the consolidated guidance in ED Measurement. It remains appropriate in certain situations in IPSAS 33 and 36, where the need for consequential amendments will be decided on a case by case basis in accordance with ED Measurement. 	<ol style="list-style-type: none"> See BC17-BC20 in Agenda Item 7.3.2.
March 2020	<ol style="list-style-type: none"> No decisions made (detailed review of responses) 	<ol style="list-style-type: none"> Not applicable
December 2019	<ol style="list-style-type: none"> No decisions made (preliminary review of responses) 	<ol style="list-style-type: none"> Not applicable
March 2019	<ol style="list-style-type: none"> All decisions made up until March 2019 were reflected in the Consultation Paper on Measurement. 	<ol style="list-style-type: none"> All decisions made up until March 2019 were reflected in the Consultation Paper on Measurement.

Coordinators Report of Cross-Cutting Issues

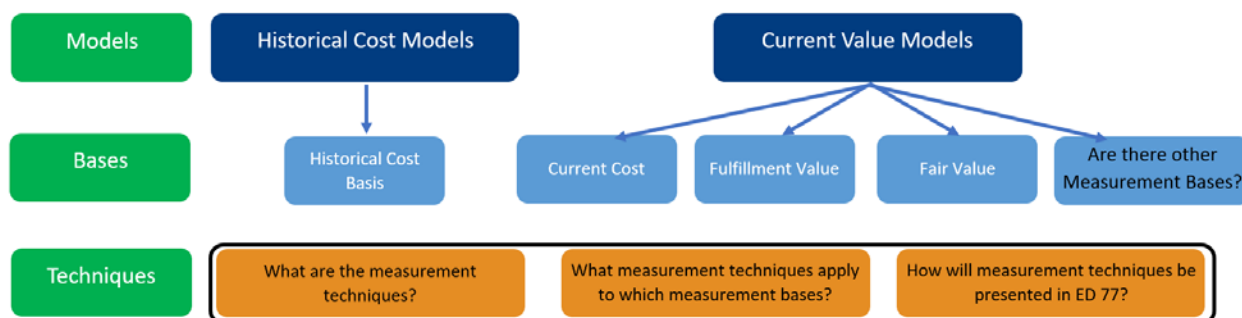
Purpose

1. To provide the IPSASB with an overview of the issues addressed as part of the work performed by the Conceptual Framework – Limited-Scope Update (CF-LSU) and Measurement project teams.

Background

2. In June, the IPSASB made several key decisions that laid the foundation for the CF-LSU and measurement projects. The key decision, that the measurement hierarchy includes models, bases and techniques, is presented in Figure 1 below.

Figure 1 – Overview of key June 2020 IPSASB decisions and instructions (decisions in white, instructions in black)



3. For September, staff focused on addressing the remaining conceptual issues and developing:
 - (a) ED 76, *Conceptual Framework* (see [Agenda Item 7.3.1](#))
 - (b) ED 77, *Measurement* (see [Agenda Item 7.3.2](#)).

The EDs reflect the IPSASB's June decisions and instructions, and illustrate what the EDs would look like assuming the IPSASB agrees with the recommendations put forward in the agenda items.

Given this is the first draft available for the IPSASB to review, staff are of the view the highest and best use of members' time is to focus on structure and concepts. This will best align with the agenda item discussions members will have in September. Staff plan further reviews prior to the IPSASB review of the October 27, 2020 version of the EDs to enhance the consistency within and between the EDs. If members do perform a review beyond structure and concepts, comments are asked to be provided out of session.

Analysis

Issues addressed for September 2020

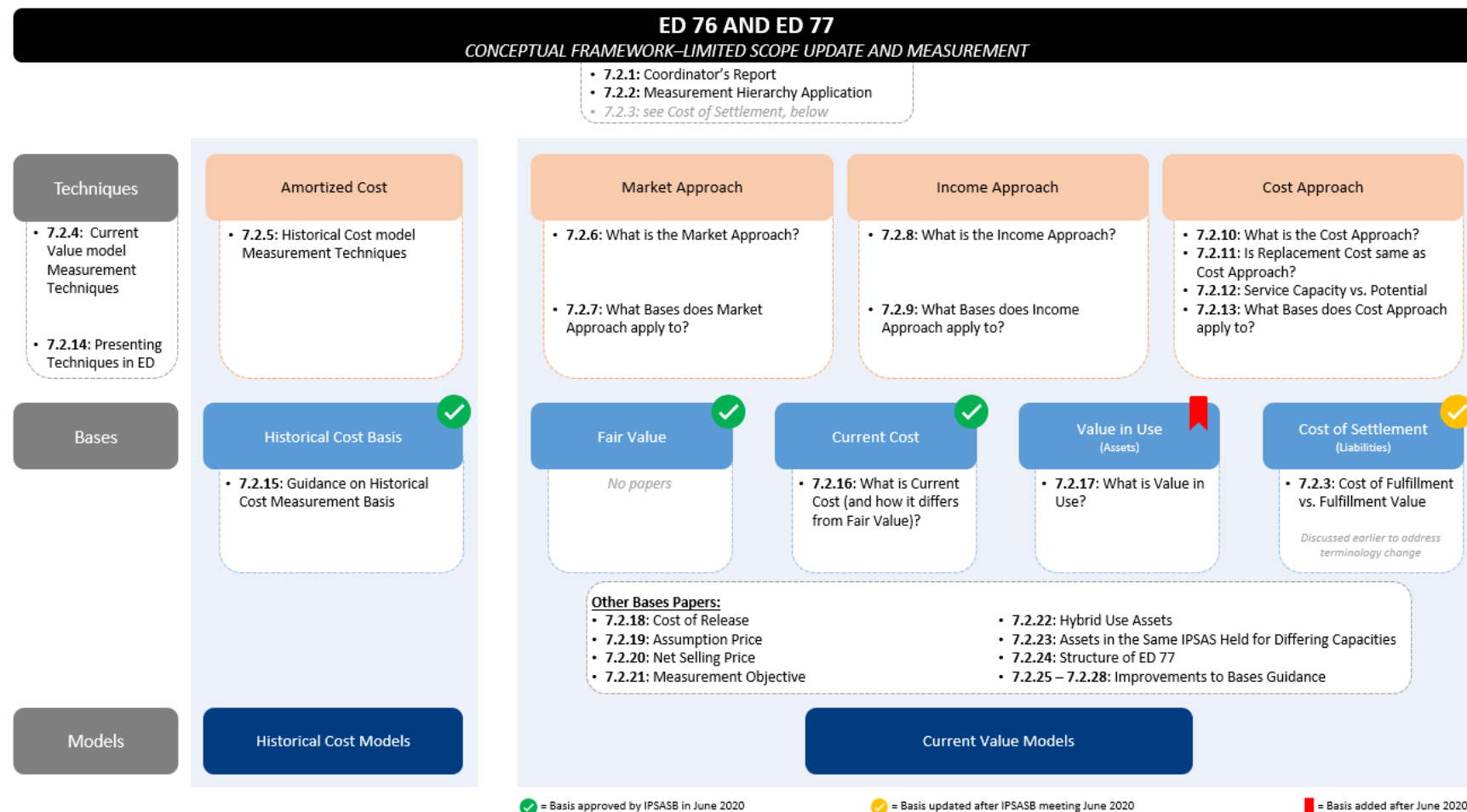
4. In order to move the projects forward in a consistent and efficient manner, staff followed the same approach as in Q2 2020. This included:
 - (a) Joint development of the overall project plan for the quarter, and through to ED approval;
 - (b) Discussion of cross-cutting agenda items prior to the development of the agenda papers;
 - (c) Cross attendance of all CF-LSU and Measurement Task Force Calls; and
 - (d) Review and comparison of all agenda papers to ensure consistency in recommendations.

5. This process has resulted in an integrated approach allowing the Board to review agenda items in a logical order. This is important because decisions in one project often impact the other.
6. In actioning the June instructions and moving the projects forward to the next phase staff have developed a significant number of agenda items for the IPSASB's consideration. Agenda items have been grouped by category in the measurement hierarchy, and are ordered so that agenda items on techniques are considered first (see Figure 2 below). This order seemed appropriate given the June focus on the measurement bases, resulting in several conceptual issues remaining to be addressed at the measurement technique level.
7. See [Agenda Item 7.3.4](#) for update of June issues log.

Plan for Q4 2020

8. In preparing for September 2020, staff prioritized developing recommendations for all conceptual issues. If June 2020 set the foundations for these projects, September 2020 frames the projects providing the IPSASB with clear expectations as to the principles in the EDs. This allows staff to focus on developing final drafts of the EDs in Q4 without having to juggle significant conceptual issues that can have wide ranging impacts on the EDs themselves.
9. The IPSASB will review the EDs over two meetings in Q4 2020:
 - (a) **October 27, 2020.** The IPSASB will review the second iteration of the EDs. The focus will be on changes from the versions, included in [Agenda Item 7.3.1](#) and [Agenda Item 7.3.2](#), and new material – specifically the consequential amendments.
 - (b) **December 8-11, 2020.** The IPSASB will review the third iteration of the EDs. The focus will be on changes from the October 27th versions. New material is expected to be limited.

Figure 2 – Overview September Agenda Items



Measurement Hierarchy Application

Question

1. Do you agree that the measurement hierarchy applies to measurement subsequent to recognition and not to measurement at recognition?

Recommendation

2. Staff and the Board Sponsor recommend that it is clarified that the measurement hierarchy applies to measurement subsequent to recognition and not to measurement at recognition.

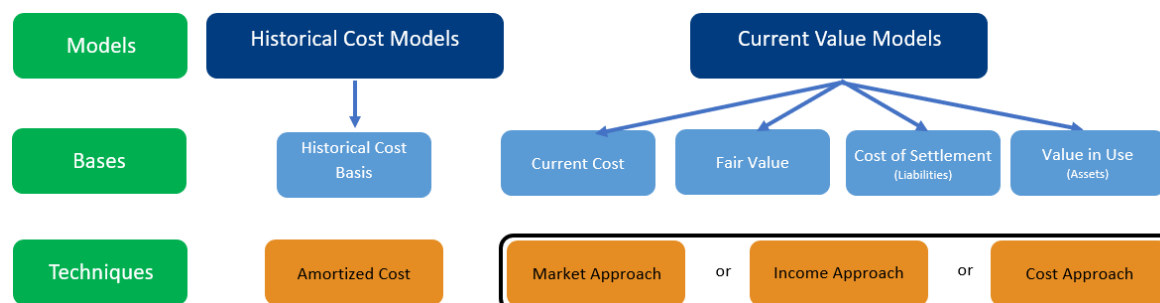
Background

3. The measurement hierarchy was approved by the IPSASB in June 2020 subject to:
 - (a) Amendment that there would be one or more measurement techniques supporting the historical cost measurement basis;
 - (b) Amendment that value in use may or may not be a measurement basis.

It was not explicit whether the measurement hierarchy related to both measurement at initial recognition and subsequent measurement or just to subsequent measurement.

Analysis

4. The measurement hierarchy comprises three levels. The most-up-to-date version of the measurement hierarchy is below.



5. It has not been explicit whether the hierarchy deals with both measurement at initial recognition and measurement subsequent to initial recognition (subsequent measurement) or only subsequent measurement. Staff, the Board Sponsor and the Chair of the Measurement Task Force are of the view that the hierarchy deals with subsequent measurement. This is because the approach to measurement at initial recognition is the same regardless of the model. Measurement at initial recognition will normally be at the transaction price unless:
 - (a) The transaction price is unknown in which case a 'deemed cost' must be determined, such as when an asset is acquired or a liability is incurred before the implementation of accrual reporting and the original transaction records no longer exist; or
 - (b) The transaction price is known, but does not meet the qualitative characteristics of financial reporting, principally because the transaction price does not provide relevant, faithfully representative or comparable information; or

- (c) There is no transaction price, for example where an asset is gifted to the reporting entity.

Decision Required

- 6. Does the IPSASB agree with the Board Sponsor and staff recommendation at paragraph 2?

Fulfillment Value vs. Cost of Fulfillment

Questions

1. Should the term and definition of cost of fulfillment be replaced by the term fulfillment value or another term?
2. If cost of fulfillment is superseded what should the replacement term and definition be?

Recommendations

3. The Measurement Task Force recommend that cost of fulfillment should be renamed cost of settlement and the definition of cost of fulfillment in the current IPSASB Framework retained with some minor amendments to reflect the use of 'settling' rather than 'fulfilling' and supporting guidance.

Background

4. Key Issue #2 of the project brief states that the project will consider the implications of the finalized measurement chapter in the International Accounting Standards Board (IASB) Conceptual Framework.

Analysis

5. Currently the IPSASB Framework includes cost of fulfillment as a current value measurement basis for liabilities.
6. Cost of fulfillment is:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.
7. The IPSASB Framework further notes that where:
 - (i) Cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account;
 - (ii) Fulfillment of the obligation requires work to be done the relevant costs are those that the entity will incur;
 - (iii) Fulfillment is by the entity itself fulfillment cost does not include any surplus;
 - (iv) Fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor; and
 - (v) Fulfillment will not take place for an extended period, cash flows need to be discounted to reflect the value of the liability at the reporting date.
8. The IASB Framework includes fulfillment value as a as a current value measurement basis for liabilities. Fulfillment value is:

The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.
9. Paragraph 6.17 of the IASB Framework further states that:

Those amounts of cash or other economic resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability.

10. At standards level cost of fulfillment is broadly reflected in the primary measurement requirement of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, and a number of other IPSAS such as IPSAS 39, *Employee Benefits*.
11. The illustrative exposure draft in the Consultation Paper (CP) *Measurement*, used the term fulfillment value with a definition that was the same as cost of fulfillment in the IPSASB Framework.
12. A number of submissions to CP, *Measurement*, expressed reservations that the definition of fulfillment value was different to that in the IASB Framework.
13. Respondent 4 expressed a view that adopting 'fulfillment value' is not merely a change in terminology and noted that fulfillment value implies a risk premium (also known as a risk adjustment or risk margin) whereas cost of fulfillment in the IPSASB Framework is silent on risk premia. A risk premium is the price for bearing the uncertainty inherent in the cash flows. The inclusion of a risk premium is not immediately apparent from the discussion of fulfillment value in the core text of the IASB Framework but is highlighted in paragraph BC6.27 of the basis for conclusions.
14. Preliminary View (PV)5 in Consultation Paper, *Measurement*, proposed that fulfillment value guidance should be based on the concepts developed in the IPSASB Conceptual Framework. In responding to PV5 five respondents either challenged the rationale and need for a risk premium or indicated that it needed to be better explained or signposted. Respondent 11 questioned whether 'the risk premium provides faithfully representative and relevant information to users about the extent of the entity's obligations to be settled in the future' and does not reflect the least costly manner to fulfill the liability, and expressed a view that a risk premium 'reflects a bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.'
15. Respondents 4 and 15 highlighted tension at standards-level, noting that the basis for conclusions of IPSAS 42, *Social Benefits*, states that measurement of the liability does not include a risk premium. The statement highlighted by Respondent 15 was in relation to the General Approach. The Insurance Approach permitted by IPSAS 42 does include a risk premium, because it refers directly to IFRS 17, *Insurance Contracts*, or national accounting standards that have adopted substantially the same principles as IFRS 17. Some IPSASB members had reservations about the inclusion of a risk premium, but decided against opening up IFRS 17, as this would have necessitated a separate project.
16. The issue of risk premia for the public sector has been the subject of public debate in New Zealand. In 2009 in a paper on standard setting for the public sector, the Office of the Auditor-General challenged the need for risk premia for public sector insurance schemes arguing that risk premia inappropriately increase liabilities.
17. Staff does not think that changing the term 'cost of fulfillment' to 'fulfillment value' without adopting the same definition/description as in the IASB Framework is appropriate. The IPSASB Consultative Advisory Group has regularly encouraged the IPSASB to use terms and definitions consistently with those in the IASB's literature.

18. Staff takes the view that the necessity of risk premia should be determined at standards level on a case-by-case basis. It is possible that there should be a specific matter for comment on this issue. This might be in ED, *Measurement*.
19. A further issue is that the 'tail' of the current definition of cost of fulfillment - the assumption that the entity settles the liability in the least costly manner. Respondent 30 expressed a view that there may be policy reasons why a public sector entity may not settle an obligation at the least costly amount.
20. At the December 2018 meeting in the context of CP, Measurement the IPSASB decided to retain 'in the least costly manner'. Staff proposes to include some text explaining the rationale – that in the public sector many taxpayers have an expectation that obligations will be fulfilled in a cost-effective way. This approach allows individual standards to 'rebut' the 'least costly manner' assumption and provide an explanation in bases for conclusions.
21. While staff favors the retention of the existing definition of cost of fulfillment the term itself is very similar to fulfillment value. This might be confusing to some users. Staff therefore proposes adoption of the term 'cost of settlement' and in the definition itself changing 'fulfilling' to 'settling'. The revised definition is therefore:

The costs that the entity will incur in settling the obligations represented by the liability, assuming that it does so in the least costly manner.

Decision Required

22. Does the IPSASB agree with the recommendation at paragraph 2?

Current Value Model Measurement Techniques

Question

1. Does the IPSASB agree there are three measurement techniques under the current value model?

Recommendation

2. Staff recommend including three measurement techniques in the IPSASB measurement hierarchy under the current value model:
 - (a) Market approach;
 - (b) Income approach; and
 - (c) Cost approach.

Background

3. This issues paper identifies and develops the measurement techniques, in accordance with the measurement hierarchy approved in June 2020.
4. This paper summarizes the current state of the conceptual framework and measurement projects at September 2020. This allows the IPSASB to understand the landscape before reading specific issues papers.

Analysis

5. In June 2020, the IPSASB agreed *measurement techniques are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis*. While the most appropriate basis to apply best meets the informational needs of users, the most appropriate technique to apply best uses the data available to estimate the basis.
6. In identifying measurement techniques, staff considered guidance developed by other standard setters, guidance provided by the valuation community², and considered practically how an asset or liability could be valued.
7. Staff have identified three measurement techniques:
 - (a) **Market approach.** Uses prices and other relevant information generated by market transactions involving comparable assets or liabilities.
 - (b) **Income approach.** Uses future amounts (e.g., cash flows) converting them into a current amount.

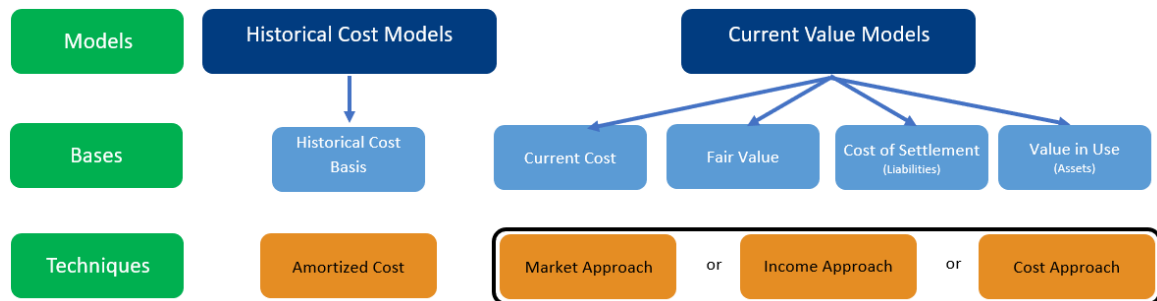
The income approach is primarily determined using a present value measurement. However, it can be determined using any future cash flow stream (option pricing, multi-period earnings, etc.).
 - (c) **Cost approach.** Uses amounts that would be required to replace an asset.

² Staff considered the requirements included in International Valuation Standards 2017.

8. The measurement techniques are conceptually consistent with those proposed in the Illustrative EDs fair value application guidance. Depending on which measurement basis the measurement technique is used to estimate, variations in assumptions are required to reflect the characteristics of the measurement basis.

Conceptual Application

9. For conceptual purposes, staff recommend the IPSASB apply the hierarchy as outlined below.



10. The measurement hierarchy does not attribute measurement techniques to measurement bases. It illustrates, depending on the information available, professional judgement is applied to determine the most appropriate technique to estimate a measurement basis.
11. The benefits of applying this diagram, rather than developing a diagram that attributes measurement techniques to measurement bases include:
 - (a) **Conceptual Diagram.** As noted in paragraph 5, measurement techniques estimate the amount presented under the selected measurement basis. Optically, this diagram reinforces the measurement technique is selected based on the information available, and techniques are applicable across multiple measurement bases.
 - (b) **Flexibility.** This approach provides the IPSASB with flexibility to easily amend the hierarchy should a basis or a technique be identified for application in the public sector in future periods.
 - (c) **Clean, easy to understand.** Iterations of the hierarchy where measurement techniques were allocated to measurement bases were complex. The principles-based diagram proposed conveys the measurement concepts while being digestible to informed readers.

Practical Application

12. In supporting constituents in applying the measurement hierarchy, ED, *Measurement* will propose the commonly used measurement techniques for each measurement basis. For example, ED *Measurement* will explain the income approach is the most used technique when estimating the value in use measurement basis.

Decision Required

13. Does the IPSASB agree with the Staff recommendation?

Historical Cost Model Measurement Techniques

Questions

1. Is amortized cost a measurement technique for the historical cost measurement basis?
2. Are there other measurement techniques for the historical cost basis?

Recommendations

3. Staff recommend that amortized cost is proposed as a measurement technique for the historical cost measurement basis.

Background

4. At the June meeting the IPSASB decided to adopt the three-level measurement hierarchy, subject to clarification that there are one or more measurement techniques that support the historical cost measurement basis. Staff were instructed to identify such measurement technique(s).

Analysis

5. Staff considered a number of possible techniques including:
 - Deemed cost
 - Fair value
 - Current cost
 - Amortized cost
6. Deemed cost is a generic term for **an amount used as a surrogate for cost or depreciated cost at a given date**. Deemed cost can be relevant to circumstances where the transaction or event that gives rise to an asset is unknown, where an entity is reporting on the accrual basis for the first time or is migrating to a new reporting framework, such as when an entity already on the accrual basis adopts IPSAS.
7. IPSAS 17, *Property, Plant and Equipment*, includes requirements and guidance that 'where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at then date of acquisition.' The reference to 'fair value' is to the definition that preceded IFRS 13, *Fair Value Measurement*. The IPSASB has agreed to adopt the revised definition of fair value, and staff have carried out an initial analysis of where the revised definition is appropriate in requirements and guidance that specify fair value.
8. Although the IPSASB has not considered the issue it is likely that measurement at initial recognition for assets acquired in non-exchange transactions will be at current cost or fair value dependent on whether an asset is held for operational capacity or financial capacity.
9. The above discussion relates to measurement at initial recognition prior to determination of the model for subsequent measurement. None of these approaches is therefore specific to the historical basis. The hierarchy relates to the subsequent measurement.
10. Amortized cost is a method of applying a historical cost measurement basis to financial assets and financial liabilities. Amortized cost reflects estimated future cash flows discounted at a rate

determined at initial recognition in IPSAS 41, *Financial Instruments*. This approach is known as the effective interest rate method.³

11. Staff have considered whether net realizable value and/or value in use are measurement techniques that support historical cost. Staff concluded that net realizable value is an entity-specific measurement basis that is used to determine the recoverability of certain inventories. Value in use is considered in [Agenda Item 7.2.17](#). Staff's revised view is that value in use is an entity-specific current value measurement basis that is used to determine recoverability of assets where there is an indicator of impairment. Net realizable value and value in use exemplify that where an entity has adopted the historical cost model, current value measurement bases have to be used for certain purposes in order to ensure that information meets the qualitative characteristics. Neither net realizable value nor value in use are measurement techniques.

Decision Required

12. Does the IPSASB agree with the Staff recommendations at paragraph 2?

³ The effective interest rate is the rate that exactly discounts estimated cash payments or receipts through the expected life of the financial assets or financial liability to the gross carrying amount of a financial asset or the amortized cost of a financial liability.

What is Market Approach?

Question

1. Does the IPSASB agree with the amendments to the description of the market approach in the CP to make it generic to all applicable current value measurement bases?

Recommendation

2. Staff recommend the market approach description developed for the CP be amended for application across multiple measurement bases.

Background (Section is consistent for [Agenda Items 7.2.6](#), [7.2.8](#) and [7.2.10](#))

3. The CP identified three measurement techniques available to estimate fair value. Guidance on each measurement technique was included in the fair value AG.
4. The measurement techniques included in the fair value AG are consistent with the existing guidance in IFRS 13, *Fair Value Measurement*, and with those identified for development in the ED (See [Agenda Item 7.2.4](#)). They are:
 - (a) Market approach;
 - (b) Income approach; and
 - (c) Cost approach.

Analysis

5. [Agenda Item 7.2.4](#) states the market approach reflect prices and other relevant information generated by market transactions involving comparable assets or liabilities.
6. This principle is consistent with the three market approach paragraphs in the fair value AG. However, because it was located in the fair value AG, the guidance is specific to determining fair value.

Updating Market Approach Guidance for ED, Measurement

7. For the market approach guidance to be applicable across multiple measurement bases, guidance must be generic. Aspects specific to fair value measurement should be removed (for example, references to financial instruments). Staff propose the following changes to the paragraphs drafted in the Consultation Paper – Illustrative Exposure Draft:

Move generic guidance to core text (see [Agenda Item 7.2.14](#) for details on structure of ED)

A36 The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation

Retain to guidance specific to estimating fair value in the fair value AG

A37 ~~For example, valuation~~ Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple

within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.

A38 Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

8. The changes proposed reflect the generic nature of the measurement technique. By separating the specificities of applying the market approach to fair value measurement, the measurement technique can be applied to estimate multiple measurement bases.

Decision Required

9. Does the IPSASB agree with Staff's recommendation?

Market Approach Use

Question

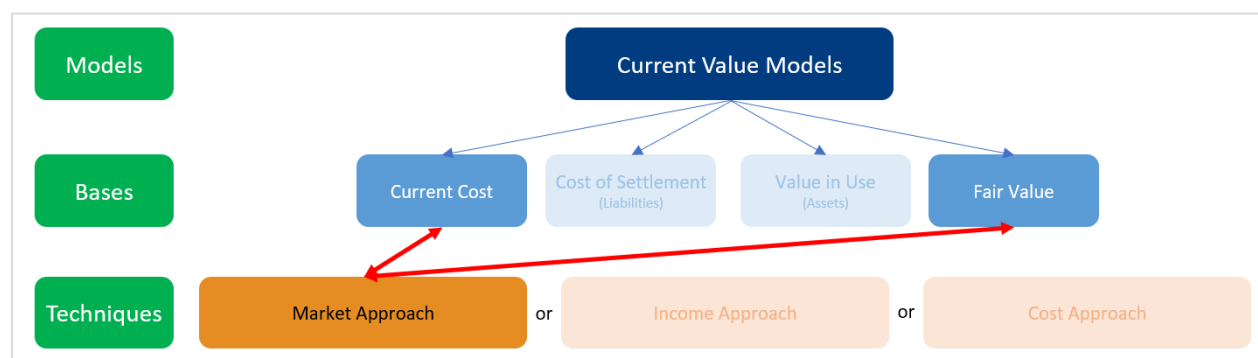
1. Do you agree the market approach measurement technique can be used for the listed measurement bases?

Recommendation

2. Staff recommend market approach can be applied to estimate the following current value measurement bases:
 - (a) Fair value; and
 - (b) Current cost.

Background (Section is consistent for [Agenda Items 7.2.7](#), [7.2.9](#) and [7.2.13](#))

Extract of Measurement Hierarchy



3. In June 2020, the IPSASB agreed that *measurement techniques are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis*. The Board instructed staff to identify and develop the measurement techniques based on the approved measurement hierarchy.
4. Staff have identified three widely used measurement techniques in [Agenda Item 7.2.4](#) that can be used to estimate the amount at which an asset or liability is presented: market approach, income approach, and cost approach. The next step is to determine which measurement techniques can be applied to estimate which measurement bases.
5. When estimating a measurement bases, an entity selects a measurement technique that best meets the objective of the basis:
 - (a) **Best uses data available to estimate** the measurement basis, and
 - (b) **Reflects the attributes** applicable to that basis.⁴

Because measurement techniques consider the attributes of the measurement basis:

⁴ See [Agenda Item 7.3.2](#) – Exposure Draft (ED) 77, paragraph 25-26.

- (c) Some measurement techniques apply to multiple measurement bases;
- (d) Some measurement techniques do not apply to some measurement bases; and
- (e) Some measurement bases may be estimated by one of multiple measurement techniques.

Judgment is required to determine the most appropriate technique to estimate the specific measurement basis for each transaction.

Analysis

6. Market approach is a technique that *uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation.*⁵
7. This technique uses data from current market transactions. Therefore, the market approach can provide the most appropriate data to estimate a measurement basis that intends to reflect the consideration the entity would pay or receive for an asset or liability in current market conditions.

Measurement Basis	Is the objective met?
Fair Value ⁶	Yes – Fair value provides an exit-based measurement (e.g. an asset's selling price) and considers current market conditions and a market participant acting in economic best interest. Market approach would provide current market condition data from market transaction prices based on market participant perspectives at economic best interest, to estimate the value of an entity's asset/liability.
Current Cost ⁷	Yes – Current cost provides an entry measurement based on current market conditions (e.g. an asset's buying price).
Value in Use ⁸	No – Value in use provides an entity-specific amount derived from an asset's operation and disposal at the end of its usual life. Market approach does not provide data to estimate expected cash flows of an entity's asset as it does not reflect entity-specific assumptions.
Cost of Settlement ⁹	No – Cost of settlement provides entity-specific costs incurred to settle obligations represented by the liability, in the least costly manner. Market approach does not provide entity-specific data to estimate expected cash flows of an entity's liability.

8. Based on the above analysis, the market approach, which uses prices and other relevant information generated by market transactions, can be used to estimate fair value and current cost.

⁵ [Agenda Item 7.3.2](#) – ED 77, paragraph 32.

⁶ [Agenda Item 7.3.2](#) – ED 77, paragraphs 10-12.

⁷ [Agenda Item 7.3.2](#) – ED 77, paragraphs 18-21.

⁸ [Agenda Item 7.3.2](#) – ED 77, paragraphs 22-24.

⁹ [Agenda Item 7.3.2](#) – ED 77, paragraphs 13-15.

Decision Required

9. Does the IPSASB agree with the Staff recommendation?

What is Income Approach?

Question

1. Does the IPSASB agree with the amendments to the description of the income approach in the CP to make it generic to all current value measurement bases?

Recommendation

2. Staff recommend the income approach description developed for the CP be amended for application across multiple measurement bases.

Background (Section is consistent for [Agenda Items 7.2.6](#), [7.2.8](#) and [7.2.10](#))

3. The CP identified three measurement techniques available to estimate fair value. Guidance on each measurement technique was included in the fair value AG.
4. The measurement techniques included in the fair value AG are consistent with the existing guidance in IFRS 13, *Fair Value Measurement*, and with those identified for development in the ED (See [Agenda Item 7.2.4](#)). They are:
 - (a) Market approach;
 - (b) Income approach; and
 - (c) Cost approach.

Analysis

5. [Agenda Item 7.2.4](#) states the income approach convert future amounts (e.g., cash flows) into a current amount.
6. This principle is consistent with the two income approach paragraphs in the fair value AG. However, because it was located in the fair value AG, the guidance is specific to determining fair value.

Updating Income Approach Guidance for ED, Measurement

7. For the income approach guidance to be applicable across multiple measurement bases, guidance must be generic. Aspects specific to fair value measurement should be removed (for example, “fair value”). Staff propose the following changes to the paragraphs drafted in the Consultation Paper – Illustrative Exposure Draft:

Move generic guidance to core text (see [Agenda Item 7.2.14](#) for details on structure of ED)

A41 The income approach converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis ~~fair value measurement~~ reflects current ~~market~~ expectations about those future amounts.

Retain to guidance specific to estimating fair value in the fair value AG

A42 Those valuation techniques include, for example, the following:

- (a) Present value techniques;

(b) Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and

(c) The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

8. Changes proposed reflect the generic nature of the measurement technique. By separating the specificities of applying the income approach to fair value measurement, the measurement technique can be applied to estimate multiple measurement bases.

Decision Required

9. Does the IPSASB agree with Staff's recommendation?

Income Approach Use

Question

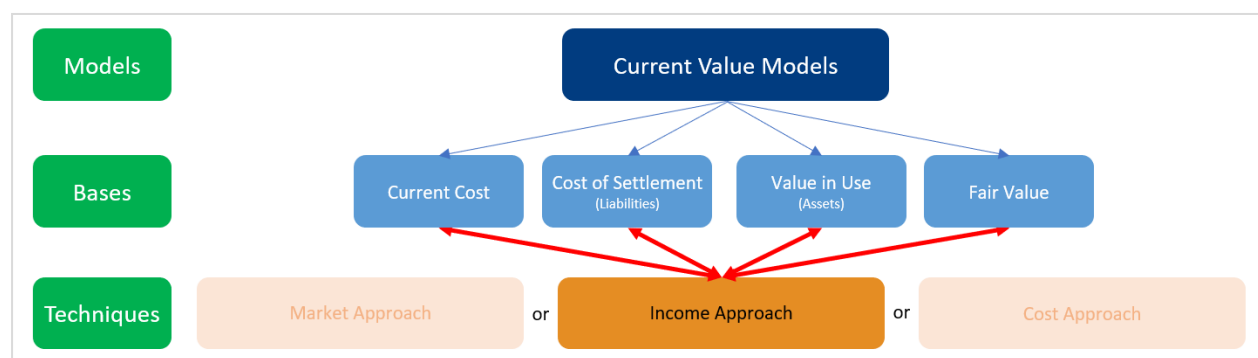
1. Do you agree the income approach measurement technique can be used for the listed measurement bases?

Recommendation

2. Staff recommend income approach can be applied to estimate the following current value measurement bases:
 - (a) Fair value;
 - (b) Current cost;
 - (c) Value in use; and
 - (d) Cost of Settlement.

Background (Section is consistent for [Agenda Items 7.2.7](#), [7.2.9](#) and [7.2.13](#))

Extract of Measurement Hierarchy



3. In June 2020, the IPSASB agreed that *measurement techniques are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis*. The Board instructed staff to identify and develop the measurement techniques based on the approved measurement hierarchy.
4. Staff have identified three widely used measurement techniques in [Agenda Item 7.2.4](#) that can be used to estimate the amount at which an asset or liability is presented: market approach, income approach, and cost approach. The next step is to determine which measurement techniques can be applied to estimate which measurement bases.
5. When estimating a measurement bases, an entity selects a measurement technique that best meets the objective of the basis:
 - (a) **Best uses data available to estimate** the measurement basis, and

(b) **Reflects the attributes** applicable to that basis.¹⁰

Because measurement techniques consider the attributes of the measurement basis:

- (a) Some measurement techniques apply to multiple measurement bases;
- (b) Some measurement techniques do not apply to some measurement bases; and
- (c) Some measurement bases may be estimated by one of multiple measurement techniques.

Judgment is required to determine the most appropriate technique to estimate the specific measurement basis for each transaction.

Analysis

6. Income approach is a technique that, reflecting current expectations, *converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount*. Income approach includes present value techniques, option pricing models, and multi-period excess earnings method.¹¹
7. This technique considers estimated future cash flows, variations in estimated amount or timing of these cash flows, time value of money, and other factors that impact the value (such as liquidity). As such, this technique would provide the most appropriate data to estimate a measurement basis that intends to reflect value based on future amounts.

Measurement Basis	Is the objective met?
Fair Value ¹²	Yes – Fair value provides an exit-based measurement (e.g. an asset's selling price) and considers current conditions and a market participant acting in economic best interest. Income approach can provide a reasonable estimate of the exit value as a market participant would generally not pay a selling price that exceeds what can be derived from future amounts.
Current Cost ¹³	Yes – Current cost provides an entry measurement based on current conditions (e.g. an asset's buying price). Income approach can provide a reasonable estimate as an entity would consider future amounts when determining whether to acquire an asset or incur a liability. Income approach techniques incorporate adjustments to reflect entity- and transaction-specific factors when considering the value and timing of future amounts.
Value in Use ¹⁴	Yes – Value in use provides an entity-specific amount derived from an asset's operation and disposal at the end of its usual life. Income approach can provide an estimate directly based on future amounts and entity-specific factors.

¹⁰ [Agenda Item 7.3.2](#) – Exposure Draft (ED) 77, paragraphs 25-26.

¹¹ [Agenda Item 7.3.2](#) – ED 77, paragraphs 35 and A44.

¹² [Agenda Item 7.3.2](#) – ED 77, paragraphs 10-12.

¹³ [Agenda Item 7.3.2](#) – ED 77, paragraphs 18-21.

¹⁴ [Agenda Item 7.3.2](#) – ED 77, paragraphs 22-24.

Cost of Settlement ¹⁵	Yes – Cost of settlement provides entity-specific costs incurred to settle obligations represented by the liability, in the least costly manner. Income approach can provide an estimate based on future cash flows and other factors relating to the liability.
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8. Based on the above analysis, the income approach, which uses information about future amounts, can be used to estimate any of the four measurement bases.

Decision Required

9. Does the IPSASB agree with the Staff recommendation?

¹⁵ [Agenda Item 7.3.2](#) – ED 77, paragraphs 13-15.

What is Cost Approach?

Question

1. Does the IPSASB agree with the amendments to the description of the cost approach in the CP to make it generic to all applicable measurement bases?

Recommendation

2. Staff recommend the cost approach description developed for the CP be amended for application across multiple measurement bases.

Background (Section is consistent for [Agenda Items 7.2.6](#), [7.2.8](#) and [7.2.10](#))

3. The CP identified three measurement techniques available to estimate fair value. Guidance on each measurement technique was included in the fair value AG.
4. The measurement techniques included in the fair value AG are consistent with the existing guidance in IFRS 13, *Fair Value Measurement*, and with those identified for development in the ED (See [Agenda Item 7.2.4](#)). They are:
 - (a) Market approach;
 - (b) Income approach; and
 - (c) Cost approach.

Analysis

5. [Agenda Item 7.2.4](#) proposes the cost approach reflect the amount that would be required to replace an asset.
6. This principle is consistent with the two cost approach paragraphs in the fair value AG. However, because it was located in the fair value AG, the guidance is specific to determining fair value.

Updating Cost Approach Guidance for ED, Measurement

7. For the cost approach guidance to be applicable across multiple measurement bases, guidance must be generic. Aspects specific to fair value measurement should be removed (for example, “market participant”). Staff propose the following changes to the paragraphs drafted in the Consultation Paper – Illustrative Exposure Draft:

Move generic guidance to core text (see [Agenda Item 7.2.14](#) for details on structure of ED)

A39 The cost approach reflects the amount that would be required currently to replace the service provided by capacity¹⁶ of an asset (often referred to as current replacement cost)- through the acquisition or construction of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration,

¹⁶ The term “capacity” was replaced with “provided by” to resolve a conflict between the terms “capacity” and “potential”. See [Agenda Item 7.2.12](#) for analysis.

functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives).

A40 ~~From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of the asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.~~

8. Changes proposed reflect the generic nature of the measurement technique. By removing the specificities of applying the cost approach to fair value measurement, the measurement technique can be applied to estimate multiple measurement bases.

Decision Required

9. Does the IPSASB agree with Staff's recommendation?

Replacement Cost Compared with Cost Approach

Question

1. Does the IPSASB agree the replacement cost principles are consistent with those of the cost approach?

Recommendation

2. The Task Force recommends:
 - (a) The replacement cost principles developed in CP, *Measurement*, are consistent with those of the cost approach measurement technique proposed in ED, *Measurement*;

Background

3. In June 2020, the IPSASB decided replacement cost should be a measurement technique rather than a measurement basis.
4. Since replacement cost was identified as a measurement basis in the CP, Appendix D¹⁷, the IPSASB instructed Staff to consider the relationship with the cost approach measurement technique.

Analysis

5. Table 1 evaluates each replacement cost paragraph for consistency with the cost approach.
 - (a) **Replacement cost.** All 42 AG paragraphs from the CP are used.
 - (b) **Cost approach.** Both paragraphs from the Illustrative ED, *Measurement* are used. These paragraphs have not been updated to make them generic in nature¹⁸. See [Agenda Item 7.2.10](#) for analysis on changes made.
6. Based on the detailed analysis in Appendix A, staff and the Task Force concluded that paragraph A39 and paragraph D1 are consistent and that paragraph A40 and paragraph D30 are consistent as shown in Table 1 below. In addition, staff and the Task Force concluded that all other replacement cost paragraphs are consistent with the cost approach because they provide further information or clarification on how to apply the cost approach.

¹⁷ The replacement cost guidance in CP, *Measurement* was based on existing guidance throughout IPSAS.

¹⁸ [Agenda Item 7.2.10](#) recommends making the cost approach paragraphs proposed in the fair value AG generic in order to apply them across multiple measurement bases. Proposed amendments are minor.

Table 1 – Comparison of Cost Approach and Replacement Cost

Cost Approach (From IED A39 and A40)	Summary Analysis of whether Replacement Cost is Consistent with Cost Approach (See Appendix A for detailed analysis)	
<p>A39. The cost approach reflects the amount that would be required currently to replace the service capacity¹⁹ of an asset (often referred to as current replacement cost).</p>	<p>D1</p>	<p>Yes</p> <p>The objective of replacement cost measurement is to estimate the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.</p>
<p>A40. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of the asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.</p>	<p>D30</p>	<p>Yes</p> <p>This valuation method measures value by calculating the current replacement cost of a modern equivalent asset—that is, a notional asset providing an equivalent service potential as the existing asset while using the latest technology available—and then making deductions (the ‘depreciation’ of depreciated replacement cost) for the following forms of obsolescence and optimization:</p> <p>...</p>

7. Based on the analysis above and the June IPSASB decision, the Replacement Cost Appendix proposed in the CP has been removed. Relevant guidance included in the Replacement Cost Appendix was moved to support the application of the cost approach when estimating current cost and fair value. Staff has developed a table outlining the movement of the guidance at the end of the ED ([link to mapping table](#)).

Decision Required

8. Does the IPSASB agree with the Task Force recommendation?

¹⁹ See [Agenda Item 7.2.12](#) for detailed analysis on service capacity compared to service potential.

APPENDIX A

Comparison of Replacement Cost and Cost Approach

9. The following table considers the replacement cost requirements developed in the April 2019 CP and evaluates whether they are consistent with the market approach requirements developed in the September 2020 ED.

Illustrative ED Paragraph Number	Replacement Cost (Illustrative Exposure Draft [April 2019 CP])	Consistent with Cost Approach	Notes
Cost Approach (From IED A39 and A40)	<p>A39. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).</p> <p>A40. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of the asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.</p>		

D1	<p>The objective of replacement cost measurement is to estimate the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date. Replacement cost measurement requires an entity to determine all of the following:</p> <ul style="list-style-type: none"> (a) The particular asset that needs to be measured. (b) The most economic manner to replace the service potential of the asset. (c) The appropriate valuation technique(s), considering the availability of data with which to develop inputs that represent the economic position of the entity. 	<p>Yes</p> <p>Consistent with application of “service capacity” and “asset” in A39 to consider:</p> <ul style="list-style-type: none"> - The replacement of service capacity²⁰; and - The unit of account is a particular asset. <p>(c) has been removed from ED, Measurement. The IPSASB agreed replacement cost is a measurement technique.</p>	<p>Service Potential and Service Capacity</p> <p>Cost approach refers to service capacity while replacement cost refers to service potential. Staff recommend these concepts differentiate between fair value and current cost measurement (See analysis in Agenda Item 7.2.12)</p>
D2	<p>The Asset</p> <p>A replacement cost measurement is for a particular asset. Therefore, when measuring the replacement cost, an entity takes into account the characteristics of the particular asset relevant in determining the replacement cost at the measurement date.</p>	<p>Yes</p> <p>Clarifies application of “asset” in A39 to consider:</p> <ul style="list-style-type: none"> - The characteristics of a particular asset. 	-
D3	<p><i>Characteristics of the Asset</i></p> <p>It is often difficult to separate the factors impacting the replacement cost of an asset into characteristics of the asset itself and the asset’s intended use, which relate more to the asset’s service potential (see paragraph D11). The following characteristics of an asset will often impact the determination of its replacement cost:</p> <ul style="list-style-type: none"> (a) The location of the asset; and (b) The condition of the asset 	<p>Yes</p> <p>Clarifies application of “asset” in A39 to consider:</p> <ul style="list-style-type: none"> - What characteristics of a particular asset should be contemplated. 	-

²⁰ See [Agenda Item 7.2.12](#) for detailed analysis on service capacity compared to service potential.

D4	<p>The Location of the Asset</p> <p>If there is no locational requirement for the asset, the asset's replacement cost may assume that the notional replacement will be situated on an alternative site which can provide the same service potential in a more cost effective way. However, the location of an asset may impact its replacement cost in situations where a social policy decision has been made requiring the asset to be located in a specific location.</p>	<p>Yes</p> <p>Clarifies application of "asset" in A39 to consider:</p> <ul style="list-style-type: none"> - How the location of an asset impacts assumptions. 	-
D5	<p>For example, schools and hospitals will ideally be located within the communities they serve; and local authority offices will be easily accessible to all citizens. The land on which these schools, hospitals or offices are built might be in expensive inner-city sites or in town and city centers. Where a social policy decision has been made requiring the asset be located in a specific location, the replacement cost of the land is based on the current value of the existing site, rather than on cheaper land located further away from the communities they serve.</p>		-
D6	<p>The Condition of the Asset</p> <p>The replacement cost presented in the Statement of Financial Position and Notes to the Financial Statements should reflect the cost of replacing the service capacity of the asset at the reporting date. Thus the current gross replacement cost of a modern equivalent asset is adjusted by making deductions for physical obsolescence, functional obsolescence, and economic obsolescence (see paragraphs D30-D32), which are also used to assist in determining the useful economic life of the asset.</p>	<p>Yes</p> <p>Consistent with application of "obsolescence" in A40:</p> <ul style="list-style-type: none"> - Physical obsolescence, functional obsolescence, and economic obsolescence. 	-
D7	<p><i>Componentization</i></p> <p>An entity is required to allocate the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciate separately each such part. For example, an office building might comprise its external structure (foundations, walls, floors and roof—all of which have different design lives); its internal fit-out (offices, reception area, kitchen and canteen—which might have different lives; and plant (elevators, for example). The replacement cost of the building as a whole will normally have a separate useful life and replacement cost when compared to each component. The assessment of the remaining life of the external structure and the plant may be based on a consideration of the physical obsolescence as noted in paragraph D30.</p>	<p>Yes</p> <p>Clarifies application of "asset" in A39 to consider:</p> <ul style="list-style-type: none"> - The componentization requirements of PP&E. 	<p>IPSAS Specific</p> <p>(include in IPSAS 17)</p> <p>Text was included in the CP as it is replacement cost guidance. However, as part of this review, the guidance is specific to PP&E and should be retained in IPSAS 17.</p> <p>This guidance is not generic across all asset types. For example, if the cost approach was applied to financial instruments, componentization is not</p>

D8	It is therefore important that the entity identifies the 'significant parts' or components before the assessment of the replacement cost of the service capacity of the asset can begin. This is because the extent of componentization adopted by the entity could affect the scope of work in terms of the information collected during the assessment. In identifying components, an entity should have regard to the materiality of the asset(s) in relation to the statement of financial position and also think carefully about what is 'significant' so as not to make the accounting process overly burdensome but at the same to ensure that the information presented in the financial statements is of relevance to users.		relevant.
D9	There may be circumstances where an asset does not have any individually significant components, or the components of the asset all have similar useful lives and depreciation methods. Such components may be grouped in determining the replacement cost (and subsequent depreciation charge) of the asset as a whole.		
D10	Similarly, groups of assets which all have a similar useful life and depreciation method may be grouped in determining the replacement cost and subsequent depreciation charge for the entire group of assets. Such circumstances may exist where multiple assets are interdependent and have similar useful lives. For example, different types of infrastructure, including dams, waterways, clean water supply, and grey and dirt water treatment facilities; roads and road-related structures; rail networks; as well as electricity and gas supply networks may have assets that are all depreciated over similar time periods and on the same basis. However, in other cases, even though these assets work together to perform a single related function, each asset within the group may consist of significant components with different useful lives and replacement costs, so an entity will need to apply judgement to determine the appropriate level of componentization.		
D11	The Service Potential of the Asset The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service capacity to deal with contingencies. Therefore, the replacement cost of an asset reflects expected changes in required service capacity.	Yes Clarifies application of "service capacity" in A39 to consider: - It is the amount the entity is capable of using or expects to use. Examples of application are provided.	Service Potential and Service Capacity Cost approach refers to service capacity while replacement cost refers to service potential. Staff recommend these concepts differentiate between fair value and current cost measurement (See analysis in Agenda Item 7.2.12)
D12	For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for the current and reasonably foreseeable requirements, the replacement cost of the asset is that of a school for 100 pupils.		

D13	<p>When estimating the service potential of an asset, an entity shall take into account the characteristics of the asset, which include:</p> <p>(a) The intended use of the asset;</p> <p>(b) The specifications of the asset; and</p> <p>(c) Restrictions, if any, on the sale or use of the asset.</p>		
D14	<p><i>The Intended Use of the Asset</i></p> <p>In carrying out an assessment of the replacement cost of land and built property, it is the use to which the asset has been put that will be the basis of the calculation of the replacement cost. For example, the replacement cost of an aircraft hangar that is being used as a storage warehouse will be that of a warehouse. Another example might be where city center land has been designated by the local authority as parkland.</p>		
D15	<p><i>The Specifications of the Asset</i></p> <p>There are several examples in the public sector of assets whose specifications are such that there are few (if any) similar assets whose replacement cost can be assessed in an active and liquid market.</p>		
D16	<p>Buildings of Conventional Appearance that have Specialized Features</p> <p>Some buildings have a conventional basic design that is superficially similar to other buildings that are regularly bought and sold in the market, but on closer inspection have specialized features designed to meet the requirements of the actual occupier. A typical example is a purpose-built embassy, which, although built to perform an office function, is situated on a site that includes extra stand-off land and includes designed-in security features such as thickened walls and toughened glazing. This type of building will often cost considerably more to develop and build than a normal office building, but provide extra service potential (in the form of security for its occupants) which cannot be replicated through the purchase of a normal office building. In this instance, provided that the occupying entity continues to require the extra service potential, the building should be treated as specialized and its replacement cost should take into account the extra cost of the specialized internal features and requirement for stand-off land.</p>		

D17	<p>Buildings that Include Specialized Adaptations</p> <p>As another example, some buildings will comprise conventional structures that have been adapted to the requirement of the occupier. For example, a commercial office building may have been purchased by a government department and adapted by provision of enhanced security features such as perimeter barriers or toughened glazing. An entity might opt to treat the cost of such specialized adaptations as a separate item in its financial statements;²¹ in these cases, the entity will value the conventional building. Where the entity has not accounted for the costs of adaptation separately, the entity will need to consider whether the adaptations would impact the building's replacement cost.</p>		
D18	<p>Where an entity opts to include the adaptation costs within the property interest, the entity will need to ensure that those performing the valuation understand the general nature of the adaptations. It will not be appropriate, for example, for an entity to value an embassy's additional stand-off land (see paragraph D16) as surplus land: it is a necessary part of the property. Nor will it be appropriate for an entity to value a newly built embassy building as a conventional office block.</p>		
D19	<p>Historic Buildings</p> <p>It is rarely appropriate to value historic buildings on the basis of costing a modern reproduction by use of an identical replacement or modified reconstruction approach. Where an entity is considering doing so, it must be able to demonstrate that it is not valuing a mere facsimile of the existing asset and that the historic property itself is intrinsically part of the service potential.</p>		
D20	<p>Where the historic nature of the property itself contributes to the service provided, it would be appropriate to reflect the cost of reproducing the existing asset in the cost of the modern equivalent. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation, because of its significance to the community. However, where it would be impossible for a modern reproduction to recreate the original's historic significance, entities should not cost such a reproduction.</p>		

²¹ As a guide, whilst specialized features designed-in to purpose-built buildings should normally be accounted for as part of the whole building, adaptations to existing buildings should normally be accounted for separately.

D21	Buildings of iconic status (which might or might not be historic or listed) that would be replaced by similarly iconic buildings should be valued on the basis of a modern equivalent asset but including the costs of achieving that iconic status. For example, the replacement cost of an historic court house might be that of a modern court house with the addition of either a façade in keeping with the surrounding buildings, or even a reproduction facade (a replica of the façade of the existing court house.)		
D22	<i>Restrictions on the Sale or Use of the Asset</i> The entity should also consider any factors that might affect the cost of replacing the service capacity of the existing asset. The existing use of the asset will be considered in the light of environmental issues such as the present and future characteristics of the location in terms of, for example, forecast demographic changes; local planning policies; national planning policies; existing restrictions on the use of the land and/or buildings; any restrictions on the sale or use of the land and/or buildings. An example of the latter might be where property was donated to a local authority 100 years ago, with restrictive clauses in the Deed of Gift so that the local authority can only use the property for the provision of named services (such as recreational or health).	Yes Clarifies application of “service capacity” in A39 to consider: - Restrictions on service.	-
D23	The Most Economic Cost A replacement cost measure assumes the service potential of the asset is replaced in the least costly manner.	Yes Clarifies application of “service capacity” in A39 to consider: - The amount incurred to replace an asset is based on the least costly amount.	-
D24	Replacement cost adopts an optimized approach and may differ from reproduction cost, which is the cost of acquiring an identical asset. Although in many cases the most economic replacement of the service potential will be by purchasing an asset that is similar to that which is controlled, replacement cost may be based on an alternative asset if that alternative would provide the same service potential more cheaply.	Yes Clarifies application of “service capacity” in A39 to consider: - Distinguish between the purchase of an identical asset and replacing the existing asset.	-
D25	Entity-Specific Value Replacement cost is an entity specific value. An entity shall measure the cost of replacing an asset’s service potential using the assumptions from the entity’s perspective, assuming the entity acts in its own economic best interest.	Yes Clarifies application of “service capacity” in A39 to consider: - The value of the service capacity to	Entity-Specific Value D25-D26 is relevant in determining an entity-specific value (current cost). The cost approach is not an entity-specific value when determining fair value.

D26	An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner of replacing an asset's service potential, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, because entities usually acquire their assets by the most economic means available, replacement cost reflects the procurement or construction process that an entity generally follows. Replacement cost reflect the replacement of service potential in the ordinary course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.	the entity.	
D27	Transaction Costs As an asset's replacement cost represents an entity-specific entry price to replace the service potential of the asset, transaction costs incurred in acquiring, or that would be incurred in replacing, the asset are included in its determination.	Yes Clarifies application of "service capacity" in A39 to consider: - That transaction costs are included in service capacity.	Transaction Costs are addressed at Bases level The IPSASB agreed to include transaction cost guidance for each measurement basis. When replacement cost was included as an AG in the IED, this guidance was added. For the purposes of the ED, this guidance should be removed an included only for each measurement basis.
D28	Valuation Techniques An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure the cost of replacing an asset's service potential, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.	N/A No longer applicable as cost approach (replacement cost) is a measurement technique in its own right.	
D29	Market Price or Current Replacement Cost of a Modern Equivalent Asset In many cases, the replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. The replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. In the case of specialized buildings, other man-made structures and some equipment, values may be estimated using replacement cost, which may involve determining the asset's reproduction cost or use of the service units approach.	Yes Clarifies application of "amount" in A39 to consider: - The amount may need to be built up from several parts of the larger asset.	-

D30	<p><i>Depreciated Replacement Cost</i></p> <p>Replacement cost is sometimes described as depreciated (or optimized depreciated) replacement cost. This valuation method measures value by calculating the current replacement cost of a modern equivalent asset—that is, a notional asset providing an equivalent service potential as the existing asset while using the latest technology available—and then making deductions (the ‘depreciation’ of depreciated replacement cost) for the following forms of obsolescence and optimization:</p>	<p>Yes</p> <p>Consistent with application of “obsolescence” in A40:</p> <ul style="list-style-type: none"> - Physical obsolescence, functional obsolescence, and economic obsolescence. 	-
D31	<p>Physical Obsolescence</p> <p>Physical obsolescence relates to any loss of service capacity due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components’ useful life and their rate of deterioration.</p>		
D32	<p>Functional Obsolescence</p> <p>Functional obsolescence relates to any loss of service capacity resulting from inefficiencies in the asset that is being valued compared to its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in military materiel could mean that hardened aircraft hangers would be replaced by different types of structures. Such advances will need to be incorporated into the assessment of functional obsolescence.</p>		
D33	<p>Economic Obsolescence</p> <p>Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. The loss of service capacity might be temporary or permanent. For example, a school might have been built in a residential area and designed to take 500 pupils but demographic changes have resulted in the need for only 300 school places. The determination of replacement cost will need to reflect this reduction in required service capacity.</p>		

D34	<p>Reproduction Cost</p> <p>An entity should consider very carefully whether or not to use a reproduction cost (or restoration cost) as a technique to determine replacement cost. Such considerations should include whether there is a statutory or other requirement to replace an asset with what is essentially a replica and whether an exact reproduction is possible; if not, then a technique that assesses the replacement of a modern equivalent asset is likely to be more appropriate for financial reporting purposes. The guidance in later paragraphs assumes that the replacement cost is that of a modern equivalent asset.</p>	<p>Yes</p> <p>Clarifies application of “amount” in A39 to consider:</p> <ul style="list-style-type: none"> - Whether the asset needs to be reproduced in its current condition, or whether the service only has to be replaced. 	-
D35	<p>Service Units Approach</p> <p>Under the service units approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the reproduction cost approach, the current cost of replacing the remaining service potential of the asset is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.</p>	<p>Yes</p> <p>Clarifies application of “amount” and “service capacity” in A39 to consider:</p> <ul style="list-style-type: none"> - Valuing the asset based on the remaining service units available. 	-
D36	<p>Other Valuation Considerations</p> <p>The cost of a modern equivalent asset will reflect the cost that would be incurred if the works were commissioned on the date of valuation. However, there are factors that may result in the cost of a notional replacement being different from that of creating the actual asset:</p>	<p>Yes</p> <p>Clarifies application of “amount” in A39 to consider:</p> <ul style="list-style-type: none"> - What is a modern equivalent asset 	-
D37	<p>Site preparation – Work that may have been undertaken to prepare the actual site for occupation might not need to be carried out on an assumed equivalent site. An entity might therefore assume that the site being valued is level and serviced and ready for development.</p>		
D38	<p>Phasing of work – A large site may have been developed in phases. The cost of a modern equivalent asset would normally be based on a single phase development, and this should be measured at the building cost at the date of valuation. To reflect the assumption that a public entity cannot identify borrowing costs (the cost of capital) that relate to the construction of a specific asset, an entity should assume that the construction has happened ‘instantly’. As a consequence, it follows that there will be no phasing of payments, and there will be no reflection of the cost of capital in the valuation.</p>		

D39	<i>Optimal working conditions</i> – In situations where there is no locational requirement for the asset (see paragraph D4), abnormal working conditions at the actual site are ignored if an alternative site is being valued.		
D40	<i>Additional costs arising from extending an existing property</i> – These costs should be ignored, since the norm is that the valuation will be of a modern equivalent asset.	Yes Clarifies application of “amount” in A39 to consider: - Additional costs.	-
D41	<i>Contract variations</i> – Additional construction costs because of design or specification changes should be ignored. The modern equivalent asset being valued will have the same service potential as the existing asset.	Yes Clarifies application of “amount” in A39 to consider: - Contract variations.	-
D42	<i>Planning changes</i> – Entities should consider whether planning consent would need to be obtained were the modern equivalent asset to be constructed on the actual site.	Yes Clarifies application of “amount” in A39 to consider: - Planning changes.	-

Service Capacity Compared with Service Potential

Question

1. Does the IPSASB agree with the interpretation of service capacity and service potential for ED, *Measurement*?

Recommendation

2. Staff recommend the cost approach apply the terms:
 - (a) Service capacity when measuring an asset from the perspective of a market participant; and
 - (b) Service potential when measuring an asset from the perspective of the entity.

Background

3. [Agenda Item 7.2.11](#) evaluates whether the cost approach and replacement cost are consistent. As noted in the , replacement cost guidance uses the term “service potential” while the cost approach guidance uses the term “service capacity”:
 - (a) The **cost approach** reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). (Paragraph A39 of CP-IED)
 - (b) The objective of **replacement cost** measurement is to estimate the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life)... (Paragraph D1 of CP)
4. In concluding the cost approach and replacement cost are consistent concepts in [Agenda Item 7.2.11](#), staff considered the conceptual consistency of the terms service potential and service capacity. This analysis has been separated to facilitate its review.

Analysis

5. Service capacity and service potential are not identical concepts:
 - (a) **Service capacity** is not a defined term. However, a plain English interpretation is that it is the volume that a service can handle while maintaining standards of quality and performance (i.e., the maximum volume the asset can produce).
 - (b) **Service potential**, as noted in paragraph D11 of the CP, is the volume which the entity is capable of using or expects to use (i.e., the volume the asset is expected to produce based on the entity’s needs).
6. In the CP, service capacity is used in the context of determining fair value while service potential is use in the context of determining replacement cost. This is an important distinction:

Fair value measures the asset from the perspective of what a market participant is willing to pay. A market participant, in a fair value measurement, is concerned with the maximum volume the asset can produce, or its service capacity.

Replacement cost, in the CP, measures an asset from an entity-specific perspective. The entity is concerned with level of service the assets currently provides, or its service potential, as this is the value the asset provides to the entity.

7. As ED, *Measurement*, includes entity-specific measurements and market-based measurements, maintaining the current application of the terms service capacity and service potential is appropriate. This can be achieved as follows:
 - (a) The generic cost approach principle will refer to the amount that would be required to replace the **service provided** by an asset;
 - (b) The specific application of the cost approach to market-based measurements, such as fair value, clarifies measurement should reflect the **service capacity** of the asset; and
 - (c) The specific application of the cost approach to entity-specific measurements, such as current cost, clarifies measurement should reflect the **service potential** of the asset.
8. As an alternative, staff considered selecting one of the terms and applying throughout the ED. However, this approach was rejected because:
 - (a) It was inappropriate to remove either term from the guidance:
 - (i) **Service potential** is identified as a characteristic of an asset in Chapter 5 of the conceptual framework. It seemed inappropriate to eliminate a term that is a characteristic of the item being measured; and
 - (ii) **Service capacity** is included as part of the IFRS 13 fair value measurement which the IPSASB has agreed to apply in the ED.
 - (b) Additional interpretation, of whichever term was selected, would be required in each measurement basis – similar to the proposal in 15(b) and 15(c).

Decision Required

9. Does the IPSASB agree with Staff's recommendation?

Cost Approach Use

Question

1. Do you agree the cost approach measurement technique can be used for the listed measurement bases?

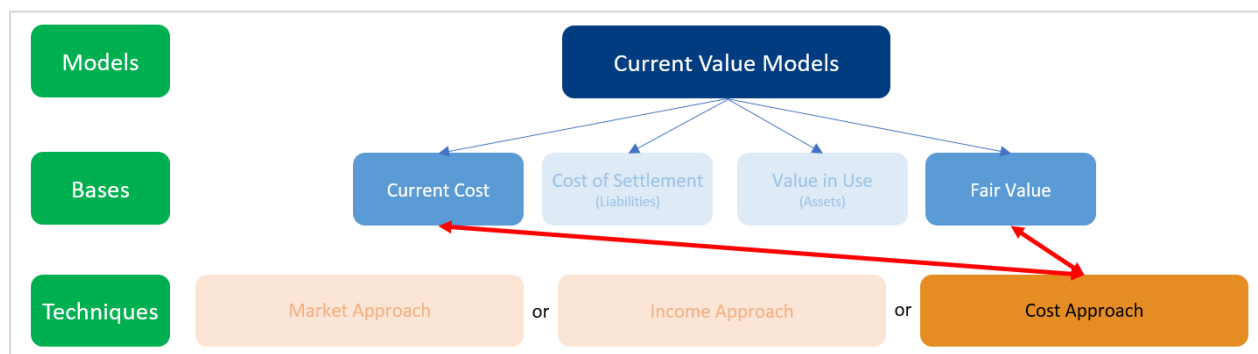
Recommendation

2. Staff recommend cost approach can be applied to estimate the following current value measurement bases:
 - (a) Fair value; and
 - (b) Current cost.

Note – pending the outcome of the IPSASB's in [Agenda Item 7.2.17](#), the cost approach may also be applied in estimating value in use. the IPSASB Should the IPSASB agree value in use is *the present value of the entity's remaining service potential or ability to generate economic benefits...*the cost approach may be applied to estimate remaining service potential.

Background (Section is consistent for [Agenda Items 7.2.7](#), [7.2.9](#) and [7.2.13](#))

Extract of Measurement Hierarchy



3. In June 2020, the IPSASB agreed that *measurement techniques are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis*. The Board instructed staff to identify and develop the measurement techniques based on the approved measurement hierarchy.
4. Staff have identified three widely used measurement techniques in [Agenda Item 7.2.4](#) that can be used to estimate the amount at which an asset or liability is presented: market approach, income approach, and cost approach. The next step is to determine which measurement techniques can be applied to estimate which measurement bases.
5. When estimating a measurement bases, an entity selects a measurement technique that best meets the objective of the basis:
 - (a) **Best uses data available to estimate** the measurement basis, and

(b) **Reflects the attributes** applicable to that basis.²²

Because measurement techniques consider the attributes of the measurement basis:

- (a) Some measurement techniques apply to multiple measurement bases;
- (b) Some measurement techniques do not apply to some measurement bases; and
- (c) Some measurement bases may be estimated by one of multiple measurement techniques.

Judgment is required to determine the most appropriate technique to estimate the specific measurement basis for each transaction.

Analysis

6. Cost approach is a technique that *reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition or construction of a substitute asset of comparable utility, adjusted for obsolescence.*²³ Cost approach is sometimes described as depreciated (or optimized depreciated) replacement cost, as it measures value by calculating the current replacement cost of a modern equivalent asset²⁴.
7. This technique considers the current amount to replace the existing asset with a modern equivalent asset. As such, this technique would provide the most appropriate data to estimate a measurement basis when the measurement basis intends to reflect value based on current replacement cost.

Measurement Basis	Is the objective met?
Fair Value ²⁵	Yes – Fair value provides an exit-based measurement (e.g. an asset's selling price) and considers current market conditions and a market participant acting in economic best interest. Cost approach can provide a reasonable estimate of fair value as a market participant buyer would generally not pay a selling price that exceeds the cost to acquire or construct a substitute asset of comparable utility, with adjustments for obsolescence (current replacement cost of a modern equivalent asset).
Current Cost ²⁶	Yes – Current cost provides an entry measurement based on current market conditions (e.g. an asset's buying price). Cost approach provides this information as it reflects the cost to replace the service of an asset.

²² See [Agenda Item 7.3.2](#) – Exposure Draft (ED) 77, paragraphs 25-26.

²³ [Agenda Item 7.3.2](#) – ED 77, paragraphs 33-34.

²⁴ A modern equivalent asset is a notional asset providing an equivalent service as the existing asset while using the latest technology available — and then making deductions (the 'depreciation' of depreciated replacement cost) for obsolescence and optimization.

²⁵ [Agenda Item 7.3.2](#) – ED 77, paragraphs 10-12.

²⁶ [Agenda Item 7.3.2](#) – ED 77, paragraphs 18-21.

Value in Use ²⁷	<p>No – Value in use provides an entity-specific amount derived from an asset's operation and disposal at the end of its usual life. Cost approach does not provide an entity-specific estimate of value that can be derived from ongoing use of an asset.</p> <p>Note – pending the outcome of the IPSASB's discussion in Agenda Item 7.2.17, the cost approach may also be applied in estimating value in use. Should the IPSASB agree value in use is <i>the present value of the entity's remaining service potential</i> or <i>ability to generate economic benefits...</i> the cost approach may be applied to estimate remaining service potential.</p>
Cost of Settlement ²⁸	<p>No – Cost of settlement provides entity-specific costs incurred to settle obligations represented by the liability, in the least costly manner. Cost approach does not provide any useful information to estimate the amount to settle a liability.</p>

8. Based on the above analysis, the cost approach, which uses prices and other relevant information generated by market transactions, can be used to estimate fair value and current cost.

Decision Required

9. Does the IPSASB agree with Staff's recommendation?

²⁷ [Agenda Item 7.3.2](#) – ED 77, paragraphs 22-24.

²⁸ [Agenda Item 7.3.2](#) – ED 77, paragraphs 13-15.

Presenting Measurement Techniques in ED, *Measurement*

Question

1. Does the IPSASB agree how measurement techniques are presented in ED, *Measurement*?

Recommendation

2. Staff recommend presenting measurement techniques in ED, *Measurement*, as follows:
 - (a) **Generic application principles.** Include generic guidance for each measurement technique in the core text. Generic guidance is applicable when using a measurement technique to estimate any measurement basis.
 - (b) **Specific application principles.** Include specific guidance for each measurement technique in the measurement basis Application Guidance (AG) to which it relates. Specific guidance is only applicable when using a measurement technique to estimate a specific measurement basis.

Background

3. At the June 2020 meeting, the IPSASB agreed ED, *Measurement*, would provide guidance on measurement bases and measurement techniques.
4. The IPSASB instructed Staff to determine how to present measurement techniques when the same measurement technique is relevant to multiple measurement bases, considering any nuances of application in relation to different bases.

Analysis

Practical Issue in Structuring the Exposure Draft

5. The challenge faced when incorporating measurement techniques is how to structure the ED to ensure the guidance is clear, while minimizing repetition. Some measurement techniques can be used to estimate more than one measurement basis. The general measurement technique principle is consistent across the measurement bases, but the measurement technique needs to consider the characteristics of the measurement basis it is estimating. For example, the market approach can be applied to estimate fair value and current cost, but assumptions differ depending on which basis is being estimated.
6. Staff considered several alternatives when developing a structure for the ED:
 - (a) **AG for each measurement technique.** An AG for each measurement technique significantly increased the number of AGs. Staff concluded this was not an appropriate structure as it was confusing having separate AGs for measurement bases and measurement techniques as users may not understand the level at which an AG was written. It would also result in readers flipping back and forth between AGs to understand how to apply measurement techniques for a measurement basis.
 - (b) **AG for each measurement technique (bases in core text).** A variation of the first alternative was to move all the guidance in the existing AGs – guidance on measurement bases – to the core text so that AGs were only measurement techniques. Staff concluded this

was not an appropriate structure as it resulted in too much information in the core text and included guidance in the core text beyond generic principles.

- (c) **AG for all measurement techniques.** This alternative would include all measurement technique guidance in one AG. Staff concluded this was not an appropriate structure as it was confusing at what level the AGs were developed.
- (d) **Include it once in the first AG:** This alternative would have the measurement technique fully developed in the first AG to which it applied. Subsequent AGs would refer to the early AG as required. Staff concluded this was not an appropriate structure as it required flipping back and forth and repetition of guidance.

Generic Guidance in Core Text

- 7. Staff determined the most appropriate way to structure the measurement techniques guidance was to maintain the current structure of the ED, an AG for each measurement basis, and include the:
 - (a) Generic measurement technique guidance in the core text; and
 - (b) Specific measurement technique guidance in the AG of the measurement basis to which it applies.

Continuing the market approach example above:

- **Generic market approach guidance** added to the core text is applicable across all measurement bases. The generic guidance indicates the market approach uses prices generated by market transactions involving identical assets or liabilities.
- **Specific market approach guidance** included in the fair value AG clarifies prices are derived from an open and active market as they relate to the highest and best use of the asset.
- **Specific market approach guidance** included in the current cost AG clarifies prices are derived from a market as they relate to the service capacity of the asset being valued.

- 8. The advantages to structuring the ED in this way are:

- (a) **Core text stands alone.** With generic measurement basis and measurement technique guidance in the core text, readers can grasp the measurement principles, and apply them in practice, without reading the AGs.

This is consistent with the structure of IPSAS 41, *Financial Instruments*, where AGs expand on the principles in the core text, but introduce no new concepts.

For example in ED 77, the fair value AG outlines the assumptions the market approach considers when estimating fair value. These assumptions are based on the principles in the core text. Since the core text indicates fair value is the amount received to sell an asset, the AG only clarifies that the inputs used in applying the market approach are based on prices from an open and active market.

- (b) **Consistent set up throughout ED.** By including the generic measurement technique guidance in the core text, all measurement principles are introduced in together. These principles are applied are expanded in the AGs to aid in their application in practice.

- (c) **Minimal repetition.** Repetition of guidance was an issue Staff struggled with when testing alternative structures. By including the generic guidance in the core text, there is no need to repeat it in each measurement basis AG.

Decision Required

- 9. Does the IPSASB agree with the Staff recommendation?

Guidance on Historical Cost Measurement Basis

Question

1. Does the IPSASB agree application guidance for the historical cost measurement basis should include guidance on initial and subsequent measurement?

Recommendation

2. Staff recommend guidance in the historical cost AG include guidance on initial and subsequent measurement.

Background

3. The Illustrative Exposure Draft proposed guidance on four measurement bases. The guidance developed for each measurement basis focused on how to apply the measurement basis at the measurement date.

Analysis

4. In Q3, staff reviewed the guidance collected and relocated into the historical cost AG and considered which measurement techniques can be used to estimate the historical cost measurement basis. During its deliberations, staff distinguished between initial measurement and subsequent measurement.

Initial Measurement

5. Historical cost measures provide monetary information about assets and liabilities, using information derived from the transaction price. The transaction price can either be on:
 - (a) **Market terms.** A transaction price is on market terms when the parties are transacting at arm's length and monetary consideration is transferred.
 - (b) **Non-market terms.** A transaction price is not on market terms when the parties are related, it is a non-exchange transaction, and/or the consideration transfer is non-monetary.²⁹
6. Where the transaction price is observable, the consideration transferred/received represents the initial value of the asset or liability.
7. Where the transaction price is unobservable, a current value measurement basis is used to approximate its cost on initial recognition. These measurement bases under the current value model include fair value, current cost, value in use and cost of settlement.

²⁹ A transaction price may also be unobservable when an entity applies the historical cost basis after initial measurement. This may occur on adoption of IPSAS, application of a new IPSAS, or a change in accounting policy estimate. The analysis in the agenda item focuses on "unobservable" in the context defined in 5(b). Other unobservable instances are addressed in the relevant literature, for example, IPSAS 33.

Subsequent Measurement

8. After initial measurement, the historical cost of an asset or liability is updated for current events³⁰. However, the historical cost measurement continues to provide information derived from the transaction price (unless the item becomes impaired, or onerous).
9. Regardless of how the initial measurement is determined, this value serves as the starting point for subsequent measurement at historical cost.

Proposed Guidance in ED 77

10. The historical cost measurement guidance developed for the Illustrative Exposure Draft focused on how to measure at the measurement date. This guidance focused on what costs should be included in a historical cost measurement – similar to an initial measurement.
11. While this approach is appropriate for current value measures – the measurement methodology is the same on initial recognition and in subsequent periods – the measurement methodology differs for historical cost depending on whether it is measured initially or subsequently. The guidance in the historical cost AG has been developed as follows:

- (a) **Initial measurement.** Guidance on initial measurement is based on principles outlined in paragraph 5-7.

This represents a departure from the guidance included in the illustrative exposure draft which focused on what was include in cost when the transaction price was observable. This guidance was primarily drawn from IPSAS 16 and IPSAS 17.

With several ways to determine historical cost initially, staff are of the view it is appropriate to focus on principles and allow individual IPSAS to specify how initial values are determined, what is included in cost, or which measurement basis to apply when the transaction price is unobservable.

Note - In actioning this proposal, some illustrative exposure draft historical cost text was relocated back to ED 78. This had an added benefit. In July 2020, the IPSASB noted some of the measurement sections did not flow well with the “generic” text removed. Relocating the initial text back to ED 78 addresses this concern.

- (b) **Subsequent measurement.** Guidance on subsequent measurement is based on principles outlined in paragraph 8-9.

This represents a departure from the guidance included in the illustrative exposure draft which focused on what was include in cost rather than on subsequent measurement.

Decision Required

12. Does the IPSASB agree with the Task Force recommendation?

³⁰ Current events include consumption of the asset (amortization), settlement of a portion of the liability, etc.

What is Current Cost?

Question

1. Does the IPSASB agree with principles proposed for the current cost measurement basis?

Recommendation

2. Staff recommend the current cost measurement basis reflect prices in the market in which the entity would acquire the asset.

Note – assuming the IPSASB agrees with the recommendation, staff will perform analysis in Q4 2020 in order to develop a recommendation whether the current cost concept should be refined to focus on replacing the service potential of the asset, rather than the asset itself.

Background

3. The CP identifies fair value as a measurement basis applicable in IPSAS. Constituents identified several challenges in applying fair value in the public sector including the fair value assumptions of:
 - Highest and best use; and
 - Maximizing the use of market participant data.
4. These challenges really only apply to measuring items held for their operational capacity, where the above assumptions are rarely—if ever—applicable in the public sector context.
5. Staff have developed a current value measurement applicable when items are held for their operational capacity.

Analysis

6. The IASB defines current cost in their conceptual framework as:

Current cost of an asset. The cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date.

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

Current Cost of an Asset

7. The current cost of an asset, like historical cost, is an entry value. It reflects prices in the market in which the entity would acquire the asset. Hence, it is different from fair value, value in use and cost of settlement, which are exit values. However, unlike historical cost, current cost reflects conditions at the measurement date.
8. Furthermore, consistent with value in use and cost of settlement, current cost is an entity-specific value and so does not have the 'highest and best use' assumption or the need to maximize the use of market participant data thereby addressing the concerns raised by constituents in paragraph 3. Therefore, current cost is applicable when measuring the current value of an asset held for its operational capacity (see [Appendix A](#) for differences between fair value and current cost).

9. Current cost complements fair value as another measurement basis to measure current value.

Current Cost of a Liability

10. The current cost of a liability shares the same characteristics as the current cost of an asset identified in paragraph 7. Consistent with paragraph 8, the current cost of liability is also entity-specific. However, the current cost of a liability is not expected to be applied in practice.
11. This is due in part to the fact liabilities are not held for operational or financial capacity in the same sense as assets. The objective of measuring a liability is generally to reflect the expected settlement amount or the amount that would be incurred to transfer the liability to another party. The cost of settlement measurement basis estimates the expected settlement amount, and the fair value measurement estimates the amount that would be incurred to transfer a liability. Practically, staff has not identified circumstances where the amount that would be received for incurring an equivalent liability is applicable in the IPSAS literature.
12. The following BC has been drafted to address the exclusion of the current cost of a liability:

The IPSASB considered whether to include current cost for liabilities. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that current cost for liabilities might provide useful information for managerial purposes, but considered that the practical application of such a measurement basis is very limited. The IPSASB therefore concluded that current cost for liabilities should not be included in the Framework.

Decision Required

13. Does the IPSASB agree with the Task Force recommendation?

Appendix A: Differences in assumptions between fair value and current cost

DRAFT (ILLUSTRATIVE ONLY)	Fair Value	Current Cost
Asset Valuation	X	X
Liability Valuation	X	
Exit Value	X	
Entity-specific		X
Market Inputs	X	
Market Participant	X	
Non-Performance Risk	X	
Risk Premium	X	
Current Market Conditions	X	X
Principal or most advantageous market	X	
Highest and Best Use	X	

Definition of Fair Value

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

What is Value in Use?

Question

1. Is value in use (VIU) a measurement basis that should be retained in the IPSASB Conceptual Framework?

Recommendation

2. Staff recommend that VIU should be retained as a measurement basis with the current definition, which covers both cash-generating and non-cash-generating assets.

Background

3. At the June meeting staff indicated a preliminary view that VIU is a measurement technique rather than a measurement basis for cash-generating assets and that VIU is neither a measurement basis nor a measurement technique for non-cash-generating assets. Members expressed reservations and instructed staff to carry out further analysis.

Analysis

4. Staff have identified the following options for VIU:
 - (a) Maintain earlier view that VIU is not a measurement basis for either cash-generating assets or non-cash-generating assets;
 - (b) Accept that VIU is a measurement basis for cash-generating assets, but VIU is not a measurement basis for non-cash-generating assets; or
 - (c) Maintain current position in IPSASB Framework with the definition covering both cash-generating assets and non-cash-generating assets.
5. The current definition of VIU in the IPSASB Conceptual Framework (IPSASB Framework) is:

The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.
6. As stated in the June agenda papers this definition is consistent with that in the IASB Framework³¹ apart from the inclusion of service potential, which reflects the service delivery objective of entities for which the IPSASB is developing standards. In this respect it is similar to the inclusion of service potential in the definition of an asset. Not referencing service potential would effectively exclude the majority of assets from the measurement basis.
7. As noted in the June agenda papers, VIU is defined separately in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*. The definition of VIU of a cash-generating asset in IPSAS 26 is based on the present value of estimated cash flows

³¹ The present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal.

from use of the asset and the net proceeds of disposal and is consistent with that in IAS 36, *Impairment of Assets*. It is also consistent with the current definition of VIU in the IPSASB Framework.

8. The definition of VIU of a non-cash-generating asset in IPSAS 21 reflects the unsuitability of a cash flow-based technique for assets that are primarily held for service delivery: It also illustrates the difficulty of applying value in use in a non-cash-generating context, because value in use has to be estimated using replacement cost or a similar technique.(see paragraph 10)
9. At the June meeting one of the points made was that VIU requires techniques in order to be operationalized — projecting cash flows and estimating the net amounts of disposal for cash-generating assets and for determining the present value of service potential for non-cash-generating assets and that this militates to it being a measurement basis. It was also noted that VIU is a measurement basis for assets in the IASB Conceptual Framework; Staff considers these points persuasive and therefore rejects Option (a) in paragraph 4 as VIU is a measurement basis for cash-generating assets.
10. The advantage of Option (b) is that it would be fully consistent with the IASB Framework. The disadvantage is that it would remove non-cash-generating assets from the scope of a measurement basis that is a central aspect of assessing impairments. Option (c) avoids this deficiency but does create standards-level challenges. Option (c) requires measurement techniques. These may be the income approach for cash-generating assets and cost approach for non-cash-generating assets or variants of those approaches.
11. Staff does not think that the existing definition of VIU in the IPSASB Framework is flawed. However, the method of determining VIU in IPSAS 21 is inconsistent with the IPSASB Framework. This is because the definition of ‘value in use of a non-cash-generating asset’³² does not include the proceeds of disposal of the asset at the end of its useful life.
12. On balance staff support Option (c) — retention of the current definition of VIU, because of a view that the advantages of a measurement basis that includes service potential, and is therefore relevant to the majority of assets held by entities for which IPSASB is developing and maintaining standards outweigh the practical challenges of operationalizing the measurement basis. If Option (c) is supported it is likely that IPSAS 21 will need to be reopened in the future, because of the inconsistency between IPSAS 21 and the Framework highlighted in paragraph 10.

Decision Required

13. Does the IPSASB agree with the Staff recommendation at paragraph 2?

³² Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

Cost of Release

Question

1. Do you agree that cost of release should not be retained in Chapter 7 of the IPSASB Conceptual Framework (IPSASB Framework)?

Recommendation

2. Board Sponsor and Staff recommend that cost of release is not retained in the IPSASB Framework.

Background

3. Key Issue #2 in the project brief states that the project will consider the implications of the finalized measurement chapter in the International Accounting Standards Board (IASB) Conceptual Framework.

Analysis

4. Currently the IPSASB Framework includes cost of release as a current value measurement basis for liabilities, describing it as follows:

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

5. The IASB Conceptual Framework does not include cost of release. Paragraph BC 6.29(c) explains that:

Cost of release depicts the estimated cost (including transaction costs) of obtaining release from a liability by negotiation with the counterparty; *and concludes that:*

Because it 'is relatively unusual for entities to obtain release from liabilities, instead of fulfilling them, the Board concluded that it is unnecessary to describe this measurement basis in the *2018 Conceptual Framework*.

6. Cost of release is entity-specific and does not assume an open, active and orderly market. At standards level the measurement requirements and guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, include a grey letter reference to 'transfer(ing) an obligation at the reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. The reference in IPSAS 19.45 is consistent with cost of release.
7. In January 2020, the IASB added a targeted project on Provisions to its active work program. This project is considering amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* in three areas. One of these areas is to align the liability definition and requirements for identifying liabilities in IAS 37 with the IASB's Conceptual Framework. An agenda paper for the January 2020 IASB meeting raised the issue of aligning the wording in the measurement section of IAS 37 with the description of fulfilment value in the IASB Conceptual Framework. One aspect of such an alignment would be to delete the reference to the transfer of an obligation.
8. Staff acknowledge the IASB's view that 'it is relatively unusual for entities to obtain release from liabilities' Staff have not identified specific public sector examples where cost of release might

apply. The reform of the Chilean state pension program in the early 1980s introduced a new system of privately managed individual accounts, which replaced its public pay-as-you-go pension system. The Chilean model was adopted by a number of other jurisdictions in Central and South America in the 1990s and 2000s. However, the Chilean reform did not involve a transfer of existing liabilities, and, as far as staff are aware, other similar reforms did not involve such a transfer. Therefore, cost of release would not be relevant to reforms of this type.

9. Staff have considered the potential relevance of cost of release public sector combinations where one of the parties to the combination makes a transfer to another party in order to be released from an obligation. However, staff have not identified such examples and does not think that this possibility justifies retention of cost of release.
10. Staff have also discussed an example of an entity being discontinued – for example, if a government has agreed to discontinue an agency shortly after its reporting date, with its host ministry taking on pension liabilities cost of release may be appropriate. However, again, staff do not think that such an example justifies retaining cost of release, especially, as in many cases, the agency would be accounting on a defined contribution basis and the host ministry would be the controlling entity.
11. Paragraph BC7.43 in the 2014 Framework justified the inclusion of cost of release (along with assumption price) on the grounds that there may be limited circumstances where it might meet the measurement objective. Staff and Board Sponsor do not think that standards development since 2014 has identified sufficient examples of circumstances where cost of release is appropriate to justify retention.

Decision Required

12. Does the IPSASB agree with the Board Sponsor and Staff recommendation at paragraph 2?

Assumption Price

Question

1. Do you agree that assumption price should not be retained in Chapter 7 of the IPSASB Conceptual Framework (IPSASB Framework)?

Recommendation

2. Staff and the Board Sponsor recommend that assumption price should not be retained in the IPSASB Framework.

Background

3. Key Issue #2 of the project brief states that the project will consider the implications of the finalized measurement chapter in the International Accounting Standards Board (IASB) Conceptual Framework.

Analysis

4. Currently the IPSASB Framework includes assumption price as a current value measurement basis for liabilities.
5. Assumption price is described as:

The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.
6. Assumption price is largely a mirror of replacement cost for assets. The IASB Framework does not include assumption price as a measurement basis and there is no reference to assumption price in the Basis for Conclusions. Assumption price is not reflected in the IPSASB literature at standards level.
7. The case for retention of assumption price is that it is appropriate when the government is taking on liabilities at concessionary rates, for example guarantees to banks to facilitate lending to businesses impacted by COVID-19 and for measuring reinsurance liabilities. This case was largely reflected in paragraph BC7.42 of the 2014 Framework (without the reference to COVID-19). Staff are not fully convinced by the case for retention as staff consider that fair value is the appropriate measurement basis for concessionary guarantees and reinsurance liabilities.
8. Paragraph BC7.43 in the 2014 Framework justified the inclusion of assumption price (along with cost of release) on the grounds that there may be limited circumstances where it might meet the measurement objective.
9. Staff and the Board Sponsor think that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit, as suggested by the examples in paragraph 7, potentially material. Consistent with the analysis in paragraph 7 in such cases fair value is likely to be a more appropriate measurement basis. Therefore, standards development since 2014 has not substantiated the case for retention of assumption price.

Decision Required

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

Net Selling Price

Question

1. Is it necessary to define net selling price as a measurement basis for assets in the IPSASB Conceptual Framework?

Recommendation

2. Board Sponsor and staff recommend that net selling price is not defined as a measurement basis.

Background

3. Key Issue #2 of the project brief states that the project will consider the implications of the finalized measurement chapter in the International Accounting Standards Board (IASB) Conceptual Framework.
4. At the June meeting the IPSASB discussed net selling price in the context of the IFRS-alignment project on non-current assets held for sale and discontinued operations.

Analysis

5. The IPSASB Framework currently includes net selling price as a measurement basis for assets. Net selling price is:

The amount that the entity can obtain from sale of the asset after deducting the costs of sale.

6. Currently the IASB Conceptual Framework does not include net selling price. The Basis for Conclusions discusses 'net realizable value', which is very similar, if not identical, to net selling price. Paragraph BC6.29 explains that:

Net realizable value depicts the estimated consideration from sale of the asset reduced by the estimated costs of sale. The Board concluded that it is unnecessary to describe net realizable value separately because it is derived from another current measure.³³

7. Net selling price is not currently used in IPSASB's literature. At the June meeting the IPSASB considered whether net selling price should be included as an alternative measure to fair value in determining recoverability for assets held for disposal under specified circumstances. The Board rejected inclusion of net selling price, largely on accountability grounds.

8. Net realizable value is very similar to net selling price and is defined in IPSAS 12, *Inventories*:

The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution

9. This definition and the recoverability test for inventories in IPSAS is drawn from IAS 2, *Inventories*. Net realizable value is not used elsewhere in IPSASB's literature.

³³ Staff has confirmed with IASB staff that this is a reference to fair value.

10. Staff acknowledge that there is a case for an entity specific, current value measurement basis for assets, as an alternative to fair value where there is not an open, active and orderly market, such as a distressed or negotiated sale. However, the very limited circumstances under which such a measurement basis is used, and is likely to be used in the future, does not justify the inclusion of net selling price or net realizable value in the IPSASB Framework. This view is reinforced by the decision at the June meeting.

Decision Required

11. Does the IPSASB agree with the Board sponsor and Staff recommendation at paragraph 2?

Measurement Objective

Question

1. Do you agree with the minor amendments to the measurement objective in Chapter 7 of the IPSASB Conceptual Framework (the IPSASB Framework)?

Recommendation

2. Staff and the Board Sponsor recommend that the measurement objective is amended, so that the references to 'operational capacity' and 'financial capacity' precede the reference to 'cost of services'.

Background

3. The measurement objective has been one of the more influential aspects of the IPSASB Conceptual Framework. The Board Sponsor and staff have discussed making very minor amendments to the measurement objective to reflect the IPSASB's recent approach to measurement as reflected in the measurement hierarchy, which was agreed at the June meeting.

Analysis

4. Currently the measurement objective is:

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

5. Since the IPSASB approved and published the IPSASB Framework in 2014 the approach to measurement has developed. In particular, the starting point for current value measurement subsequent to initial recognition is to determine whether an asset is held for operational capacity or financial capacity. Because the IPSASB's reporting model is on a modified assets and liabilities basis, the determination of the purpose for which an asset is held impacts the information provided on the cost of services. Amending the measurement objective as follows reflects the sequence of the decision-making process:

To select ~~these~~ measurement bases that most fairly reflect the entity's ~~cost of services~~, operational capacity and financial capacity and thereby provide inputs to information on the cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

Decision Required

6. Does the IPSASB agree with the Board Sponsor and Staff recommendation at paragraph 2?

Measurement Basis for Hybrid Use Assets

Question

1. Does the IPSASB agree with the approach to determine the primary purpose of holding an asset when it is held for hybrid objectives (hybrid use), which drives selection of the appropriate measurement basis?

Recommendation

2. Task Force recommends:
 - (a) Entities apply existing principles in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets* to determine the primary purpose of holding an asset when it is held for hybrid objectives (hybrid use).
 - (b) Implementation Guidance be added in ED, *Measurement* to refer to existing principles in IPSAS 21.

Background

3. The fair value definition³⁴ put forward in CP, *Measurement*, is consistent with IASB's definition of fair value in IFRS 13. However, this definition differs from that currently in IPSAS³⁵. In June 2020, the IPSASB reviewed analysis on the appropriateness of fair value use throughout IPSAS (June 2020 Agenda Item 7.2.3) and noted that there are "grey areas" for assets held for hybrid use.
4. An entity may hold an asset for both cash and non-cash-generating purposes (such as in IPSAS 12, 21 and 26). An asset held primarily for service delivery purposes may also generate cash flows, or conversely, an asset held for commercial return (i.e. generating cash flows) may also be used for non-cash-generating purposes. The Board requested further analysis for situations where entities may have difficulty determining the primary objective, and in turn whether fair value as defined in IFRS 13 and CP, *Measurement* is an appropriate measurement basis.

Analysis

5. The reason an entity holds an item is a key determinant in whether fair value is an appropriate measurement basis (i.e. measurement objective).³⁶ In the case of assets, an asset's cash-generating objective indicates that the measurement objective is financial capacity, and that the use of fair value is appropriate as a measurement basis.

³⁴ IFRS 13.9 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." IFRS 13 also clarified that fair value is the exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability.

³⁵ IPSAS 2020 Handbook Volume 3 defines fair value in its Glossary of Defined Terms as "the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms' length transaction." This definition was created, and the references to fair value in the IPSAS was made, prior to the introduction of IFRS 13, and is not explicitly exit-based or entry-based.

³⁶ The IPSASB decided that selection of measurement basis should be linked to the measurement objective, i.e. financial vs operational capacity (June 2020, Agenda Item 6.2.8).

6. Instances where an asset may be held for hybrid use present complexity in determining whether the asset is primarily cash-generating³⁷ (indicating financial capacity), or non-cash-generating³⁸ (indicating operational capacity). Existing IPSAS 21 and IPSAS 26 acknowledge these occurrences (see [Appendix C](#) for excerpts).

	Guidance	Analysis
Intended primary objective	IPSAS 21.16 and IPSAS 26.14	This guidance emphasizes the importance of determining whether <u>the intended primary objective</u> for the asset is to generate a commercial return. The guidance clarifies that not meeting this objective for a particular reporting period also does not negate the intended primary objective, and cash flows generated from an asset primarily held for service delivery purposes is considered incidental.
Held to generate commercial return	IPSAS 21.21	The distinction as a “commercial public sector entity” is not intended to be prescriptive, but rather a high-level indication of the types of entities which generate commercial return. The focus is on whether the asset is held to generate commercial return (i.e. intended primary objective, per above) through provision to external parties.
Significant of cash flows	IPSAS 21.20 and IPSAS 26.18	An entity must <u>apply judgment consistently and objectively</u> in cases where the primary objective is not clear to determine <u>if cash flows are sufficiently significant</u> to be considered cash-generating.
Presumed as non-cash-generating	IPSAS 21.20 and IPSAS 26.18	Where uncertainty still exists after considering the entity’s intended primary objective and the significant of cash flows, an entity <u>may presume</u> that the asset is non-cash-generating given the overall objective of the public sector.

7. This analysis indicates that, when determining the primary purpose of holding a hybrid use asset, entities apply principles from IPSAS 21 and IPSAS 26 to:

- Apply **judgment** and consider entity- and transaction-specific factors to determine whether the **intended primary objective** of holding the asset is to generate commercial return; and
- Consider **significant cash flows** in a consistent and objective manner.

If an entity is unable to conclude whether the asset’s intended primary objective is cash-generating, an entity may presume that the asset is non-cash-generating given the overall objective of the public sector, and fair value would not be an appropriate measurement basis.

8. The existing guidance requires an entity to use professional judgment, consistently and objectively, to determine whether the intended primary objective of an asset is to generate commercial return. As such, specific factors must be considered in the analysis for IPSAS 21 and IPSAS 26. This analysis can be extended to apply to other IPSAS.

³⁷ IPSAS 2020 Handbook Volume 3 defines cash-generating assets as assets held with the primary objective of generating a commercial return.

³⁸ IPSAS 2020 Handbook Volume 3 defines non-cash-generating assets are assets other than cash-generating assets.

9. This is consistent with staff's existing fair value analysis on other IPSAS, which indicated that upon application, an entity must consider additional factors and apply professional judgment when determining whether the item is held for financial or operational capacity. When the intended primary objective of the asset is cash-generating, the measurement objective is financial capacity and fair value is an appropriate measurement basis.
10. Staff conclude that existing IPSAS guidance sufficiently illustrates accounting principles. Rather, reference can be made in ED, *Measurement* as Implementation Guidance to IPSAS 21 for existing principles and guidance in assessing hybrid use assets:

How does an entity determine the intended primary measurement objective of an asset?

Where an asset is used for both cash-generating and non-cash-generating purposes, an entity shall determine the primary objective of holding the asset in order to select the appropriate measurement basis. An entity should consider the principles outlined in IPSAS 21 (paragraphs 16-21) to determine the asset's intended primary objective. Where an entity is unable to do so using those principles, an entity shall presume that the asset is non-cash generating given the overall objective of the public sector, inferring operational capacity as the primary measurement objective.

Decision Required

11. Does the IPSASB agree with the Task Force recommendation?

Appendix C – Relevant Existing Guidance

	Existing Guidance <i>[emphasis added]</i>	Analysis
Intended primary objective	IPSAS 21.16 and IPSAS 26.14 state: <i>“Cash-generating assets are assets held with the <u>primary objective</u> of generating a commercial return... Holding an asset to generate a commercial return indicates that an entity <u>intends</u> to generate positive cash inflows from the asset (or from the cash generating unit of which the asset is a part), and earn a commercial return that reflects the risk involved in holding the asset...”</i>	This guidance emphasizes the importance of determining whether <u>the intended primary objective</u> for the asset is to generate a commercial return. The guidance clarifies that not meeting this objective for a particular reporting period also does not negate the intended primary objective, and cash flows generated from an asset primarily held for service delivery purposes is considered incidental.
Held to generate commercial return	IPSAS 21.21 states: <i>“Assets held by commercial public sector entities are cash-generating assets ... if the asset (or unit of which the asset is a part) is operated with the objective of generating a commercial return through the provision of goods and/or services to external parties.”</i>	The distinction as a “commercial public sector entity” is not intended to be prescriptive, but rather a high-level indication of the types of entities which generate commercial return. The focus is on whether the asset is held to generate commercial return (i.e. intended primary objective, per above) through provision to external parties.
Significant of cash flows	IPSAS 21.20 and IPSAS 26.18 state: <i>“In some cases, it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases, it is necessary to <u>evaluate the significance of the cash flows</u> ... <u>Judgment is needed</u> to determine which Standard to apply ...”</i> Both standards also indicate that an entity is required “to disclose the criteria used in making this judgment” per IPSAS 21.73A and IPSAS 26.114 respectively.	An entity must <u>apply judgment consistently and objectively</u> in cases where the primary objective is not clear to determine <u>if cash flows are sufficiently significant</u> to be considered cash-generating.
Presumed as non-cash-generating	IPSAS 21.20 and IPSAS 26.18 state: <i>“...However, given the overall objectives of most public sector entities the presumption is that assets are non-cash-generating and, therefore, IPSAS 21 will apply.”</i>	Where uncertainty still exists after considering the entity’s intended primary objective and the significant of cash flows, an entity <u>may presume</u> that the asset is non-cash-generating given the overall objective of the public sector.

Measurement Basis for Assets in the Same IPSAS Held for Differing Capacities

Question

1. Does the IPSASB agree with the recommendation on how to determine the measurement basis when assets held for operating capacity and assets held for financial capacity are within the scope of the same IPSAS?

Recommendation

2. Staff recommend entities consider IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets* accounting principles in determining the appropriate measurement basis for individual assets (or classes of assets) in the same Standard. No further guidance is necessary as principles in IPSAS 21 and IPSAS 26 are clear.

Background

3. The fair value definition³⁹ put forward in CP, *Measurement*, is consistent with IASB's definition of fair value in IFRS 13. However, this definition differs from that currently in IPSAS⁴⁰. In June 2020, the IPSASB reviewed analysis on the appropriateness of fair value use throughout IPSAS (June 2020 Agenda Item 7.2.3) and noted that there are "grey areas".
4. Instances where a Standard includes both (1) assets held for operational capacity and (2) assets held for financial capacity (such as in IPSAS 17, 31, 35, and 40) present complexity in determining the appropriate measurement basis. For example, most intangible assets in the public sector are held for their service potential (i.e. non-cash generating⁴¹ objective), indicating operational capacity. However, an entity may develop, acquire and/or hold an intangible asset to generate financial return (i.e. cash-generating⁴² objective), indicating financial capacity. The Board requested further analysis on how entities can determine the appropriateness of fair value as a measurement basis.

Analysis

5. The reason an entity holds an item is a key determinant in whether fair value is an appropriate measurement basis (i.e. measurement objective)⁴³. ED, *Measurement* proposes that holding an asset or incurring a liability for its financial capacity is an indicator that the use of fair value is appropriate. In the case of assets, an asset's cash-generating objective indicates that the measurement objective is financial capacity, and that the use of fair value is appropriate as a measurement basis.

³⁹ IFRS 13.9 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." IFRS 13 also clarified that fair value is the exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability.

⁴⁰ IPSAS 2020 Handbook Volume 3 defines fair value in its Glossary of Defined Terms as "the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms' length transaction." This definition was created, and the references to fair value in the IPSAS was made, prior to the introduction of IFRS 13, and is not explicitly exit-based or entry-based.

⁴¹ IPSAS 2020 Handbook Volume 3 defines non-cash-generating assets as assets other than cash-generating assets.

⁴² IPSAS 2020 Handbook Volume 3 defines cash-generating assets as assets held with the primary objective of generating a commercial return.

⁴³ The IPSASB decided that selection of measurement basis should be linked to the measurement objective, i.e. financial vs operational capacity (June 2020, Agenda Item 6.2.8).

6. An entity should first apply professional judgment to assess the intended primary objective of each asset within a Standard as either cash-generating or non-cash generating (see [Agenda Item 7.2.22](#) for summary of guidance from IPSAS 21 and IPSAS 26 on how to determine the primary purpose of holding an asset). This assessment should consider entity- and transaction-specific factors for each asset, and can be applied to all IPSAS.
7. Assets with similar nature and use/function to an entity's operations can be grouped together as a class of assets within the same IPSAS.
8. The measurement objective, and in turn the measurement basis, of the individual asset or class of assets can then be determined based on this conclusion:

Intended primary objective	Measurement objective	Entity's intention	Use of fair value
Cash-generating	Financial	Hold the: <ul style="list-style-type: none"> - Asset to sell, or to use to generate financial return (i.e. for cash flows). - Liability to transfer. 	Appropriate
Non-cash generating	Operational	Hold the asset or liability to provide services.	Not appropriate

An asset (or a class of assets with a similar nature and use/function) with an intended primary objective of generating a commercial return (i.e. cash generating) are considered held for financial capacity. It would be appropriate to measure this asset using fair value as the measurement basis.

9. The accounting principles above (cash vs. non-cash generating assets and the grouping of assets with similar nature and use) are sufficiently illustrated in existing IPSAS guidance. No further guidance is necessary.

Decision Required

10. Does the IPSASB agree with the Staff recommendation?

Structure of ED 77, *Measurement*

Question

1. Does the IPSASB agree with the structure of ED 77, *Measurement*?

Recommendation

2. Staff recommend ED 77 be structured as follows:
 - (a) **Core text.** Define key terms, provide principles for measurement bases and techniques; and
 - (b) **Application guidance.** Expand on principles for measurement bases and outline how measurement techniques are applied to measurement techniques.

Background

3. [Agenda Item 7.2.14](#) recommends generic measurement technique guidance be included in the core text and specific measurement technique guidance be included in the AG of the measurement basis to which it applies.

Analysis

4. One objective of the measurement project is to provide detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used.
5. In order to satisfy this objective, CP, *Measurement*, proposed AGs be developed for each commonly used measurement basis. As noted in [Agenda Item 7.2.14](#), staff considered and tried to implement several structures for the ED. Ultimately, staff returned to the structure proposed in the CP because:
 - (a) **Core text stands alone.** Including principle level guidance for measurement bases and measurement techniques in the core text allows it to be read and applied independently of the AGs. This was an important objective as AGs are developed to expand on the core text. They should introduce no new concepts or principles.
 - (b) **Clean.** The most significant challenge to overcome was to reduce the duplication of measurement technique information between the core text and the AGs, and between AGs. This was a challenge because some measurement techniques can be applied to estimate more than on measurement basis. This structure allows for key measurement techniques principles to be included once in the core text, and application of those principles to each measurement basis to be included in the appropriate AG.
 - (c) **Consistency with the CP.** As respondents did not raise issues with the structure, consistency with the structure is a benefit that is achieved because of points (a) and (b). Staff did not overweight this benefit as departure from the CP was necessary in other aspects (for example, the historical cost AG was updated significantly to incorporate views from respondents – see [Agenda Item 7.2.26](#))

Structure of ED 77

6. The following table summarize the structure of the core text and of each AG Appendix in ED 77. The table also highlights key changes made when compared to the Illustrative ED included in the

CP. The table does not propose an order for the Appendices to reduce the changes to this version of ED 77. Staff has proposed an order for the Appendices in paragraph 9 ED 77 (see [Agenda Item 7.3.2](#)).

Type of Guidance	Key Topics	Changes from IED
Core Text	<ul style="list-style-type: none"> - Definitions - Measurement bases principles - Measurement techniques principles 	Minor changes <ul style="list-style-type: none"> - New / deleted measurement bases - Generic measurement techniques guidance
Fair Value (ED Appendix A)	<ul style="list-style-type: none"> - Application of measurement basis principles - Estimating measurement techniques when applied to characteristics of measurement basis 	Minor changes <ul style="list-style-type: none"> - Generic measurement technique guidance removed
Cost of Settlement (ED Appendix B)		Minor changes <ul style="list-style-type: none"> - Generic measurement technique guidance removed
Historical Cost (ED Appendix C)	<ul style="list-style-type: none"> - Application of historical cost principles at initial measurement and subsequent measurement 	Amended to include initial and subsequent measurement guidance
Replacement Cost (ED Appendix D)	DELETED	DELETED
Current Cost (ED Appendix E)	<ul style="list-style-type: none"> - Application of measurement basis principles - Estimating measurement techniques when applied to characteristics of measurement basis 	All new AG <ul style="list-style-type: none"> - Structure of guidance consistent with FV AG - Significant portions of RC guidance included
Value in Use (ED Appendix F)		All new AG <ul style="list-style-type: none"> - Structure of guidance consistent with CoS AG
Basis for Conclusions	<ul style="list-style-type: none"> - Explanation of IPSASB decisions 	<ul style="list-style-type: none"> - Minor updates reflecting June decisions
Implementation Guidance	<ul style="list-style-type: none"> - Comparison table of characteristics of measurement bases - Present value calculation 	All new IG

Mapping of guidance in ED <i>(Not to be included in ED. Supplemental material for website)</i>	<ul style="list-style-type: none"> - IFRS 13 mapped to ED - IED Replacement cost mapped to ED 	New and updated mapping tables
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Decision Required

7. Does the IPSASB agree with the Staff recommendation?

Improvements to Replacement Cost Guidance (Theme F)

Question

1. Does the IPSASB agree the replacement cost concerns identified by respondents have been appropriately addressed?

Recommendation

2. Staff recommend the non-conceptual concerns identified by respondents related to the replacement cost application guidance be actioned as noted in paragraph 5.

Background

3. At its June meeting, the IPSASB agreed with the recommended approach in actioning non-conceptual concerns.
4. The approach to address the outstanding concerns occurred in Q3 2020.

Analysis

5. Staff have actioned all non-conceptual concerns identified by respondents:

Respondents' Concern	Action	Issue Number (Agenda Item 7.3.5)
Insufficient guidance. There is insufficient guidance currently for replacement cost	<p>Update Application Guidance as necessary (Q4 2020)</p> <p>Staff has reviewed PBE IPSAS 17 and the AASB FV ED. Both include guidance that clearly addresses adjustment to assets in the replacement cost guidance.</p> <p>Staff are of the view this guidance can further inform the IPSASBs measurement ED in Q4 2020. In Q4 the IPSASB will have addressed conceptual issues, such as the inclusion of parts of the existing RC guidance into the current cost measurement basis, that will allow staff clarify application (which PBE IPSAS 17 and the AASB FV ED can help with).</p>	RC 2 and RC 7

Editorial Updates. Suggestions to enhance / clarify the text.	<p>See Agenda Item 7.3.5</p> <p>Completed as part of development of ED. See Agenda Item 7.3.5 for how specific issues were addressed.</p> <p><i>Note – Appendix on Replacement Cost was deleted. However, editorial updates were carried forward for paragraphs that were moved to fair value and current cost appendices.</i></p>	RC 6, 11, 13, 14 and 16
Differentiate between technique and basis. Clearly differentiate between the use of the cost approach to determine fair value and replacement cost as a separate measurement basis	Closed during June 2020 Meeting	RC 1, 3, 5, 9, 10, 12 and 15
Highest and best use. Applying Highest and Best Use when measuring replacement cost is not appropriate in the public sector	Closed during June 2020 Meeting	RC 4
Specialized Assets. More specific application guidance should be provided for specialized assets/infrastructure assets	Closed during June 2020 Meeting	RC 8

Decision Required

- Does the IPSASB agree with Staff's recommendation?

Improvements to Historical Cost Guidance (Theme F)

Question

1. Does the IPSASB agree the historical cost concerns identified by respondents have been appropriately addressed?

Recommendation

2. Staff recommend the non-conceptual concerns identified by respondents related to the historical cost application guidance be actioned as noted in paragraph 5.

Background

3. At its June meeting, the IPSASB agreed with the recommended approach in actioning non-conceptual concerns.
4. The approach to address the outstanding concerns occurred in Q3 2020.

Analysis

5. Staff have actioned all non-conceptual concerns identified by respondents:

Respondents' Concern	Action	Issue Number (Agenda Item 7.3.6)
Liabilities. Historical cost is applicable to liabilities.	See Agenda Item 7.3.6 . Completed as part of development of ED. See Agenda Item 7.3.6 for how specific issues were addressed	HC 3, HC 9, HC 12 and HC 13
Editorial Updates. Suggestions to enhance / clarify the text.	See Agenda Item 7.3.6 Completed as part of development of ED. See Agenda Item 7.3.6 for how specific issues were addressed.	HC 4, HC 5, HC 8, HC 11 and HC 14
Historical Cost Appendix is unnecessary. There is no issue with the current format in each standard.	Closed during June 2020 Meeting	HC 1 and HC 10
Borrowing costs. Guidance on borrowing costs should be included in historical cost guidance.	Closed during June 2020 Meeting	HC 2
Derived text. Guidance in the appendix should not be derived from the conceptual framework or basis for conclusions.	Closed during June 2020 Meeting	HC 6 and HC 7

Decision Required

6. Does the IPSASB agree with Staff's recommendation?

Improvements to Fair Value Guidance (Theme F)

Question

1. Does the IPSASB agree the fair value concerns identified by respondents have been appropriately addressed?

Recommendation

2. Staff recommend the non-conceptual concerns identified by respondents related to the fair value application guidance be actioned as noted in paragraph 5.

Background

3. At its June meeting, the IPSASB agreed with the recommended approach in actioning non-conceptual concerns.
4. The approach to address the outstanding concerns occurred in Q3 2020.

Analysis

5. Staff have actioned all non-conceptual concerns identified by respondents:

Respondents' Concern	Action	Issue Number (Agenda Item 7.3.7)
Editorial Updates. Suggestions to enhance / clarify the text.	See Agenda Item 7.3.7 Completed as part of development of ED. See Agenda Item 7.3.7 for how specific issues were addressed.	FV 1, FV 3, FV 4, FV 5, FV 12 and FV 13
Non-authoritative guidance. Develop IEs to help determine fair value.	Update Application Guidance as necessary (Q4 2020) Staff has reviewed the AASB FV ED. It includes guidance that addresses public sector specific challenges when applying fair value (such as highest and best use). The IPSASB has addressed public sector challenges in applying FV by developing the current cost measurement basis (see Agenda Item 7.2.16). The AASB FV ED can further inform the IPSASBs measurement ED in Q4 2020 after the IPSASB has addressed conceptual issues, such as agreeing the concepts of current cost.	FV 2
Other guidance available. Consider other standard setters fair value measurement guidance to enhance AGs.		FV 6

Fair value limitations. IFRS 13 fair value has some clear limitations in the public sector (e.g. highest and best use).	Closed during June 2020 Meeting	FV 7 – FV 11
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Decision Required

6. Does the IPSASB agree with Staff's recommendation?

Improvements to Fulfillment Value Guidance (Theme F)

Question

1. Does the IPSASB agree the fulfillment value concerns identified by respondents have been appropriately addressed?

Recommendation

2. Staff recommend the non-conceptual concerns identified by respondents related to the fulfillment value application guidance be actioned as noted in paragraph 5.

Background

3. At its June meeting, the IPSASB agreed with the recommended approach in actioning non-conceptual concerns.
4. The approach to address the outstanding concerns occurred in Q3 2020.

Analysis

5. Staff have actioned all non-conceptual concerns identified by respondents:

Respondents' Concern	Action	Issue Number (Agenda Item 7.3.8)
Risk premium. Consideration of whether it is appropriate to include a risk premium in current value measures for liabilities is necessary.	See Agenda Item 7.2.3 Risk premium is recommended to be addressed on an IPSAS by IPSAS basis.	FV 1, FV 4 and FV 6
Editorial Updates. Suggestions to enhance / clarify the text.	See Agenda Item 7.3.8 Completed as part of development of ED. See Agenda Item 7.3.8 for how specific issues were addressed.	FV 3, FV 5, FV 7 and FV 9 - FV 12
Least costly amount. When determining the fulfillment value, the least costly amount should be used, however it should be constrained by how the entity plans to settle the liability.	Closed during June 2020 Meeting	FV 2
Fulfillment Value Appendix is unnecessary. Fulfillment value guidance should not be aggregated in one location. There is no issue with the current format in each standard.	Closed during June 2020 Meeting	FV 8

Decision Required

6. Does the IPSASB agree with Staff's recommendation?

Supporting Documents 1 – ED 76, *Conceptual Framework – Limited-Scope Update*

1. Guidance in [draft] Exposure Draft (ED) 76, *Conceptual Framework – Limited Scope Update* is based on Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Framework)* in the 2020 IPSASB Handbook. Text has been updated to reflect:

- (i) IPSASB decisions made in June 2020; and
- (ii) IPSASB instructions made in June 2020.

The text has also been updated to illustrate the recommendations proposed in Agenda Item 7.

2. Key changes to the text in Chapter 7 are summarized as follows:

- (i) Measurement Hierarchy.
 - (a) New guidance on three levels of measurement
- (ii) Measurement Bases.
 - (a) Revised or deleted guidance on measurement bases
 - (b) Replaced Market Value with Fair Value
 - (c) Replaced Replacement Cost with Current Cost
 - (d) Replaced Cost of Fulfillment with Cost of Settlement
 - (e) Removed Net Selling Price and Assumption Price

3. Given this is the first draft the IPSASB has reviewed, staff are of the view the highest and best use of a reviewer's time is to focus on structure and concepts. This will best align with the agenda item discussions members will have in September. Staff plan further reviews prior to the IPSASB review of the October 27, 2020 version of the EDs to enhance the consistency within and between the EDs. If members do perform a review beyond structure and concepts, comments are asked to be provided out of session.

REVIEW INSTRUCTIONS:

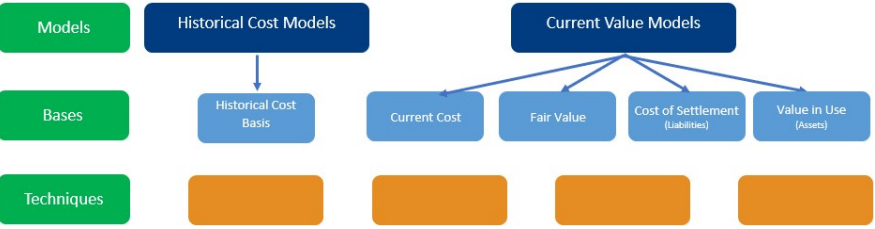
IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 76:

- (a) A significant portion of ED 76 is imported from Chapter 7 of the Framework in the 2020 IPSASB Handbook.
- (b) Changes made to Chapter 7 are tracked and based on Board Decisions or Instructions to Staff provided in previous meetings.

These components are formatted as follows for easier reference:

Format	Format description
Text	Text imported from the Illustrative ED, is shaded grey
Track changes	Text changed resulting from <u>Board Decisions</u> , comments from respondents, staff recommendation from September 2020 or editorial updates, is tracked

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	CHAPTER 7: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS	
Paragraph 7.1 is Framework paragraph 7.1	Introduction 7.1 This Chapter identifies the measurement concepts that guide the IPSASB in the selection of measurement bases for IPSASs and by preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in IPSASs.	The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Framework)
Paragraph 7.2 is Framework paragraph 7.2. Revised to address measurement objective amendment (see Agenda Item 7.2.21)	The Objective of Measurement 7.2 The objective of measurement is: <i>To select those measurement bases that most fairly reflect the <u>entity's cost of services</u>, operational capacity and financial capacity of the entity <u>and thereby provide inputs to information on the cost of services</u> in a manner that is useful in holding the entity to account, and for decision-making purposes.</i>	Framework, Chapter 7
Paragraph 7.3 is Framework paragraph 7.3. Revised to address measurement objective amendment (see Agenda Item 7.2.21) Minor amendment to bullet point on cost of services.	7.3 The selection of a measurement basis for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess: <ul style="list-style-type: none"> The cost of services provided in the period in historical or current terms; Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and Financial capacity—the capacity of the entity to fund its activities; <u>and thereby</u> <u>The cost of services provided in the period in historical cost or current value terms.</u> 	Framework, Chapter 7
Paragraph 7.4 is Framework paragraph 7.4	7.4 The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.	Framework, Chapter 7
	<u>The Measurement Hierarchy</u>	

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
<p>Paragraphs 7.5 to 7.10 are added to reflect Board Decision in June 2020 (Agenda Item 6.2.2)</p>	<p>7.5 <u>There are three levels of measurement:</u></p> <ul style="list-style-type: none"> • <u>Measurement Models</u> • <u>Measurement Bases</u> • <u>Measurement Techniques</u> 	
	<p>7.6 <u>Measurement models are the approaches to the presentation of assets or liabilities.</u></p>	
	<p>7.7 <u>Under the historical cost model assets and liabilities are presented at historically based amounts, which are derived from the actual or estimated price of the transaction or event that gave rise to them. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous for liabilities.</u></p>	
	<p>7.8 <u>Under the current value model assets and liabilities are presented using information updated to reflect price changes at the reporting date.</u></p>	
	<p>7.9 <u>Measurement bases provide the information that best meets the qualitative characteristics (QCs) under the model selected.</u></p> <p><u>Initial recognition is at transaction price or deemed cost where transaction price does not meet the QCs.- At subsequent measurement there may be cases where IPSASB specifies that a current value measurement basis is required under the historical cost model and where a historical cost measurement basis provides an adequate proxy for a current value amount under the current value model. Under the current value model selection of a measurement basis will depend on whether an asset is held for operational capacity or financial capacity and, for a liability, whether the timing and amount of settlement is certain at the measurement date.</u></p>	
	<p>7.10 <u>Measurement Techniques are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis. The selection of a measurement technique</u></p>	

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p><u>depends on factors such as the purpose for which an asset is held, the characteristics of a liability and the availability of observable data.</u></p>	
<p>Paragraph 7.11 is Framework paragraph 7.5. Revised to reflect Board Decision in June 2020 (Agenda Item 6.2.4)</p>	<p><u>The Selection of Measurement Models and Measurement Bases and their</u></p> <p>7.11 It is not possible to identify a single measurement <u>model or measurement</u> basis that best meets the measurement objective at a <u>Conceptual Framework conceptual</u> level. Therefore, the Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities in order to meet the measurement objective. <u>In order to meet the objective, it may be necessary to select measurement bases under different models, for example in assessing the recoverability of the carrying amount of an asset.</u></p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.12 is Framework paragraph 7.6. Revised to reflect Board Decision in June 2020 (Agenda Item 6.2.4) and Agenda Item 7.2.17.</p>	<p>7.12 The following measurement bases for assets are identified and discussed in terms of the information they provide about <u>the cost of services delivered by an entity</u>, the operating capacity of an entity and the financial capacity of an entity, <u>the cost of services delivered by an entity</u>, and the extent to which they provide information that meets the qualitative characteristics:</p> <ul style="list-style-type: none"> • Historical cost; • <u>Market-value Fair value</u>; • <u>Replacement-cost Current cost and</u>; • <u>Net selling price; and</u> • Value in use. 	<p>Framework, Chapter 7</p>
<p>Paragraph 7.13 added to reflect Board Decision in June 2020 (Agenda Item 6.2.4).</p>	<p>7.13 <u>The following measurement bases for liabilities are identified and discussed in terms of (a) the information they provide about the operating capacity of an entity and the financial capacity of an entity and the extent to which they contribute to determining the cost of services; and (b) the extent to which they provide information that meets the qualitative characteristics:</u></p> <ul style="list-style-type: none"> • <u>Historical cost;</u> • <u>Cost of settlement; and</u> • <u>Fair value.</u> 	
<p>Paragraph 7.14 is Framework paragraph 7.11</p>	<p><u>Entity-Specific and Non-Entity Specific Measures</u></p> <p>7.14 <u>Measures may be classified according to whether they are “entity-specific” or “non-entity-specific”. Measurement bases that are entity-specific reflect the economic and current policy constraints that</u></p>	

NOTES	DRAFT ED 76, Conceptual Framework – Limited-Scope Update	Original Source																		
	<p><u>affect the possible uses of an asset and the settlement of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks that are not experienced by other entities. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measure is taken by reference to the measurement objective and the qualitative characteristics.</u></p>																			
Paragraph 7.15 is Framework paragraphs 7.6 and 7.7, amended to reflect IPSASB instruction in June 2020 to remove entry v exit value in selecting MB (See June Agenda Item 6.2.8)	<p>7.15 <u>Tables 1 and 2 summarize these measurement bases in for assets and liabilities in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific or non-entity specific.</u></p> <p>Table 1: Summary of Measurement Bases for Assets</p> <table><tr><th>Measurement Basis</th><th>Entity or Non-entity Specific</th></tr><tr><td>Historical cost</td><td>Entity-specific</td></tr><tr><td>Market value in open, active and orderly market</td><td>Non-entity-specific</td></tr><tr><td>Market value in inactive market</td><td>Dependent on valuation technique</td></tr><tr><td>Replacement cost</td><td>Entity-specific</td></tr><tr><td>Net selling price</td><td>Entity-specific</td></tr><tr><td>Fair value</td><td>Non-entity specific</td></tr><tr><td>Current cost</td><td>Entity-specific</td></tr><tr><td>Value in use</td><td>Entity-specific</td></tr></table> <p>7.7 The following measurement bases for liabilities are identified and discussed in terms of (a) the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity; and (b) the extent to which they provide information that meets the qualitative characteristics:</p> <ul style="list-style-type: none">• Historical cost;• Cost of fulfillment;• Market value;• Cost of release; and	Measurement Basis	Entity or Non-entity Specific	Historical cost	Entity-specific	Market value in open, active and orderly market	Non-entity-specific	Market value in inactive market	Dependent on valuation technique	Replacement cost	Entity-specific	Net selling price	Entity-specific	Fair value	Non-entity specific	Current cost	Entity-specific	Value in use	Entity-specific	Framework, Chapter 7
Measurement Basis	Entity or Non-entity Specific																			
Historical cost	Entity-specific																			
Market value in open, active and orderly market	Non-entity-specific																			
Market value in inactive market	Dependent on valuation technique																			
Replacement cost	Entity-specific																			
Net selling price	Entity-specific																			
Fair value	Non-entity specific																			
Current cost	Entity-specific																			
Value in use	Entity-specific																			

NOTES	DRAFT ED 76, Conceptual Framework – Limited-Scope Update	Original Source																
	<p>● — Assumption price.</p> <p>Table 2 summarizes these measurement bases in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific.</p> <p>Table 2: Summary of Measurement Bases for Liabilities</p> <table><tr><th>Measurement Basis</th><th>Entity or Non-entity Specific</th></tr><tr><td>Historical cost</td><td>Entity-specific</td></tr><tr><td>Cost of fulfillmentsettlement</td><td>Entity-specific</td></tr><tr><td>Market value in open, active and orderly market</td><td>Non-entity specific</td></tr><tr><td>Fair value</td><td>Non-entity specific</td></tr><tr><td>Market value in inactive market</td><td>-</td></tr><tr><td>Cost of release</td><td>-</td></tr><tr><td>Assumption price</td><td>-</td></tr></table>	Measurement Basis	Entity or Non-entity Specific	Historical cost	Entity-specific	Cost of fulfillmentsettlement	Entity-specific	Market value in open, active and orderly market	Non-entity specific	Fair value	Non-entity specific	Market value in inactive market	-	Cost of release	-	Assumption price	-	
Measurement Basis	Entity or Non-entity Specific																	
Historical cost	Entity-specific																	
Cost of fulfillmentsettlement	Entity-specific																	
Market value in open, active and orderly market	Non-entity specific																	
Fair value	Non-entity specific																	
Market value in inactive market	-																	
Cost of release	-																	
Assumption price	-																	
<p>Paragraphs 7.8 to 7.9 are deleted to reflect Board Decision June 2020 (Agenda Item 6.2.8).</p>	<p>Entry and Exit Values</p> <p>7.8— Measurement bases may provide either entry or exit values. For assets, entry values reflect the cost of purchase. Historical cost and replacement cost are entry values. Exit values reflect the economic benefits from sale. An exit value also reflects the amount that will be derived from use of the asset. In a diversified economy entry and exit prices differ as entities typically:</p> <ul style="list-style-type: none">● Acquire assets tailored to the entity’s particular operating requirements for which other market participants would be unwilling to pay a similar price; and● Incur transaction costs on acquisition. <p>7.9— Measurement bases for liabilities may also be classified in terms of whether they are entry or exit values. Entry values relate to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability. Exit values reflect the amount required to fulfill an obligation or the amount required to release the entity from an obligation.</p>	<p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p>																
<p>Paragraph 7.10 is deleted to reflect IPSASB</p>	<p>Observable and Unobservable Measures</p> <p>7.10— Certain measures may be classified according to whether they are</p>	<p>Framework, Chapter 7</p>																

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
instruction in June 2020 to remove non/entity-specific in selecting MB (See June Agenda Item 6.2.8)	<p>observable in an open, active and orderly market.¹ Measures that are observable in a market are likely to be more understandable and verifiable than measures that are not observable. They may also be more faithfully representative of the phenomena they are measuring.</p>	
Framework paragraph 7.11 was moved to above Paragraph 7.14 to reflect IPSASB instruction in June 2020 to remove non/entity-specific in selecting MB	<p><u>Entity-Specific and Non-Entity Specific Measures Entry and Exit Values</u></p> <p>7.11— Measures may also be classified according to whether they are “entity-specific” or “non-entity-specific”. Measurement bases that are entity-specific reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks that are not experienced by other entities. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measure is taken by reference to the measurement objective and the qualitative characteristics.</p>	Framework, Chapter 7
Paragraphs 7.16 to 7.18 uses material from Framework paragraphs 7.8 and 7.9, and provide general discussion. MB are not identified as entry or exit. See IPSASB instruction in June 2020 (See June Agenda Item 6.2.8)	<p>7.16 <u>Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of purchase. Exit values reflect the economic benefits from sale. An exit value also reflects the amount that will be derived from use of the asset prior to sale.</u></p> <p>7.17 <u>For liabilities entry values relate to the transaction under which an obligation is incurred. Exit values reflect the amount required to settle an obligation.</u></p> <p>7.18 <u>Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases will normally include the transaction costs on acquisition of an asset or incurring a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or settlement of a liability.</u></p>	
Paragraph 7.19 is Framework paragraph 7.12	<p><u>Level of Aggregation or Disaggregation for Measurement</u></p> <p>7.19 In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics it may be necessary to aggregate or disaggregate them for measurement</p>	Framework, Chapter 7

¹—The term “open, active and orderly markets” was developed by Dr. J. Alex Milburn. For example, see *Toward a Measurement Framework for Profit-oriented Entities*, published by the Canadian Institute of Chartered Accountants in 2012.

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p>purposes. In assessing whether such an aggregation or disaggregation is appropriate the costs are compared with the benefits.</p>	
<p>Paragraph 7.20 is Framework paragraph 7.13</p>	<p>Measurement Bases for Assets</p> <p>Historical Cost Model</p> <p>7.20 Historical cost for an asset is:</p> <p><i>The consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.</i></p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.21 is Framework paragraph 7.14</p>	<p>7.21 Historical cost is an entry, entity-specific value.² Under the historical cost model assets are initially reported at the cost incurred on their acquisition. Subsequent to initial recognition, this cost may be allocated as an expense to reporting periods in the form of depreciation or amortization for certain assets, as the service potential or ability to generate economic benefits provided by such assets are consumed over their useful lives. Consistent with the historical cost model, following initial recognition, the measurement carrying amount of an asset is not changed to reflect changes in prices, or increases in the value of the asset.</p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.22 is Framework paragraph 7.15</p>	<p>7.22 Under the historical cost model the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset have diminished due to changes in economic or other conditions, as distinct to their consumption. This involves assessments of recoverability. Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements (excluding price increases for unimproved assets) or other events, such as the accrual of interest on a financial asset.</p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.23 is Framework paragraph 7.17</p>	<p>Operational Capacity</p> <p>7.23 If an asset has been acquired in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their acquisition cost. At the time an asset is purchased or developed, it can be assumed that the value to the entity of its service potential is at least as great as the cost of purchase.³ When depreciation or amortization is recognized it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services</p>	<p>Framework, Chapter 7</p>

² The term “historical cost” may also be referred to as the “cost model” or generically as “cost-based measures.”

³ Where this is not the case the initial historical cost measurement will be reduced by the amount of the impairment.

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p>are at least as great as the amount at which they are stated. Increases in the value of an asset are not reflected under the historical cost model. If an asset has been acquired in a non-exchange transaction the transaction price will not provide information on operating capacity <u>that meets the QCs.</u></p>	
<p>Paragraph 7.24 is Framework paragraph 7.18</p>	<p>Financial Capacity</p> <p>7.24 The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be received on sale of an asset, and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current exit-values.</p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.25 is Framework paragraph 7.16. Moved to reflect amendment of measurement objective (see Agenda Item 7.2.21)</p>	<p>Costs of Services</p> <p>7.25 Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire or develop assets consumed in the provision of services. Historical cost generally provides a direct link to the transactions actually undertaken by the entity. Because the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the cost of assets when the assets are consumed. As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition are significant. Where budgets are prepared on the historical cost basis, historical cost information demonstrates the extent to which the budget has been executed.</p>	
<p>Paragraph 7.26 is Framework paragraph 7.19</p>	<p>Application of the Qualitative Characteristics</p> <p>7.26 Paragraphs 7.23-7.2516–7.18 explain the areas where historical cost provides relevant information in terms of its confirmatory or predictive value. Application of historical cost is often straightforward, because transaction information is usually readily available. As a result amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that is, the cost to acquire or develop an asset based on actual transactions. Estimates of depreciation and impairment used in the historical cost model, particularly for non-cash-generating assets, can affect representational faithfulness. Because application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost</p>	<p>Framework, Chapter 7</p>

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	measures are verifiable, understandable and can be prepared on a timely basis.	
Paragraph 7.27 is Framework paragraph 7.20	7.27 Historical cost information is comparable to the extent that assets have the same or similar acquisition dates. Because historical cost does not reflect the impact of price changes, it is not possible to compare the amounts of assets that were acquired at different times when prices differed in a meaningful way.	Framework, Chapter 7
Paragraph 7.28 is Framework paragraph 7.21	7.28 In certain circumstances the application of historical cost necessitates the use of allocations—for example where: <ul style="list-style-type: none"> • Several assets are acquired in a single transaction; • Assets are constructed by the entity itself and overheads and other costs have to be attributed; and • The use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held. To the extent such allocations are arbitrary they reduce the extent to which the resulting measurement achieves the qualitative characteristics. 	Framework, Chapter 7
Paragraph 7.29 is Framework paragraph 7.22	<p>Current Value MeasurementsModel</p> <p>7.29 Current value Mmeasurements <u>under the current value model</u> reflects the economic environment prevailing at the reporting date.</p>	Framework, Chapter 7
Paragraph 7.30 is Framework paragraph 7.23. Revised to reflect Board Decision in June 2020 (Agenda Item 6.2.4) and Agenda Item 7.2.17.	7.30 There are three <u>four</u> current value measurement bases for assets: <ul style="list-style-type: none"> • Market value<u>Fair value</u>; • Replacement cost<u>Current cost</u>; and • Net selling price; and • Value in use. 	Framework, Chapter 7
This section is revised to replace market value with fair value to reflect Board Decision in June 2020 (Agenda Item 6.2.3).	<u>Market Value Fair Value</u>	

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
Paragraph 7.31 is Framework paragraph 7.24.	<p>7.31 Market valueFair value for assets is:</p> <p>The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.</p>	Framework, Chapter 7
Paragraph 7.32 is Framework paragraph 7.25.	<p>7.32 At acquisition market valuefair value and historical cost will be the same, if transaction costs are ignored and the transaction is an exchange transaction. The extent to which market fair value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded. Market Fair value is particularly appropriate where it is judged that the difference between entry and exit values is unlikely to be significant or the asset is being held with a view to sale.</p>	Framework, Chapter 7
Paragraph 7.33 is Framework paragraph 7.26.	<p>7.33 In principle, market fair value measuress provide useful information because they fairly reflect the value of the asset to the entity. In an open, active and orderly market (see paragraph 7.3528), the asset cannot be worth less than market fair value as, disregarding transaction costs, the entity can obtain that amount by selling the asset, and cannot be worth more than market fair value, as the entity can obtain equivalent service potential or thethe same ability to generate economic benefits by purchasing the same asset.</p>	Framework, Chapter 7
Paragraph 7.34 is Framework paragraph 7.27.	<p>7.34 The usefulness of market valuesfair value is more questionable when the assumption that markets are open, active and orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired and it is necessary to determine whether an exit price or an entry price is the more useful measure. Exit-based market. Fair values are usefulis appropriate for assets that are held for trading, such as certain financial instruments, but may is not be useful for specialized operational assets that an entity intends to continue to use for service delivery. Furthermore, while the purchase of an asset provides evidence that the value of the asset to the entity is at least as great as its purchase price, operational factors may mean that the value to the entity may be greater. Hence market values may not reflect the value to the entity of the asset, represented by its operational capacity.</p>	Framework, Chapter 7
Paragraph 7.35 is Framework	<p>Market Values in Open, Active and Orderly Markets</p> <p>7.35 Open, active and orderly markets have the following characteristics:</p> <ul style="list-style-type: none"> There are no barriers that prevent the entity from transacting in the market; 	Framework, Chapter 7

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
paragraph 7.28.	<ul style="list-style-type: none"> • They are active so there is sufficient frequency and volume of transactions to provide price information; and • They are orderly, with many well-informed buyers and sellers acting without compulsion, so there is assurance of “fairness” in determining current prices—including that prices do not represent distress sales. <p>An orderly market is one that is run in a reliable, secure, accurate and efficient manner. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies and securities where prices are publicly available. In practice few, if any, markets fully exhibit all of these characteristics, but some may approach an orderly market as described.</p>	
Paragraph 7.36 is Framework paragraph 7.29.	<p>Market Values<u>Fair value</u> where it cannot be assumed that m<u>Markets</u> are o<u>Open</u>, a<u>Active</u> and o<u>Orderly</u></p> <p>7.36 Markets for assets that are unique and rarely traded are not open, active and orderly: any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. In such circumstances it is necessary to use a <u>an estimation measurement</u> technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. <u>Such techniques are determined at standards level.</u></p>	Framework, Chapter 7
Paragraph 7.37 is Framework paragraph 7.31.	<p>7.37 The use of market values<u>Fair value</u> permits a return on assets to be determined. However, public sector entities do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidized terms. Consequently, there may be limited relevance in a reported return derived from exit-based market prices<u>fair value</u>.</p>	Framework, Chapter 7
Framework paragraph 7.32 is no longer necessary based on Board Decision regarding market value in June 2020 (Agenda Item 6.2.3).	<p>7.32—As noted above, revenue from providing services reported in financial statements is measured on the basis of prices current in the reporting period. Thus the surplus or deficit for a period includes price movements that take place over the period during which assets and liabilities are held, and no profit or loss is reported on the sale of an asset. Where the asset is traded on an open, active and orderly market, the existence of the market provides assurance that the entity would be able to realize the market value (and no more) at the reporting date: it is therefore unnecessary to postpone recognition of changes in value until a surplus is realized on sale. However, where assets used to provide services are not traded on open, active and orderly markets, or a close approximation to such</p>	Framework, Chapter 7

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	markets, the relevance of revenue and expense related to changes in market value is more questionable.	
Paragraph 7.38 is Framework paragraph 7.33.	<p><i>Operational Capacity</i></p> <p>7.38 The usefulness of information on the fair market value of assets held to provide services in future periods is useful if it reflects the value that the entity is capable of deriving from assets by using them in providing or delivering services limited. However, if an exit-based market fair value is significantly lower than historical cost, market value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity—such a market value fair value is also likely to be less relevant than entry value-based current measures cost.</p>	Framework, Chapter 7
Paragraph 7.39 is Framework paragraph 7.34.	<p><i>Financial Capacity</i></p> <p>7.39 An assessment of financial capacity requires information on the amount that would be received on sale of an asset. This information is provided by market fair value.</p>	Framework, Chapter 7
Paragraph 7.40 is Framework paragraph 7.30. Moved to reflect amendment of measurement objective (see Agenda Item 7.2.21)	<p><i>Cost of Services</i></p> <p>7.40 Revenue from services reported in financial statements is measured on the basis of prices current in the reporting period. If assets used to provide services are measured at fair value, the allocation of the cost of assets to reflect their consumption in the current reporting period is based on the current market value of the asset.</p>	Framework, Chapter 7
Paragraph 7.41 is Framework paragraph 7.35. Revised to address 6.2.8.	<p><i>Application of the Qualitative Characteristics</i></p> <p>7.41 Values determined in open, active and orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics—that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. Under such market conditions entry and exit values can be assumed to be the same or very similar. Because it can be prepared quickly, such information is also likely to be timely.</p>	Framework, Chapter 7
Paragraph 7.42 is Framework paragraph 7.36.	<p>7.42 The extent to which market values fair value measures meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, exit-based market values are fair value is only likely to be relevant to assessments of financial</p>	Framework, Chapter 7

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	capacity and not to assessments of the cost of services and operational capacity.	
<i>This section was added to include current cost as a MB (see Agenda Item 7.2.16)</i>	Replacement Current Cost	
<i>Paragraph 7.43 is Framework paragraph 7.37.</i>	<p>7.43 Replacement cost⁴<u>Current cost</u> is:</p> <p>The cost of an asset that provides equivalent service potential at the measurement date. The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.</p>	Framework, Chapter 7
<i>Paragraph 7.44 is Framework paragraph 7.38</i>	<p>7.44 Replacement cost<u>Current cost</u> differs from market fair value because:</p> <ul style="list-style-type: none"> • In a public sector context it is explicitly an entry value that reflects the cost of replacing the service potential of an asset; • It includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and • It is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market. For example, the replacement current cost of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually. 	Framework, Chapter 7
<i>Paragraph 7.45 is Framework paragraph 7.39</i>	<p>7.45 Because entities usually acquire their assets by the most economic means available, replacement current cost reflects the procurement or construction process that an entity generally follows.</p> <p>Replacement Current cost reflects the replacement of service potential in the normal course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.</p>	Framework, Chapter 7
<i>Paragraph 7.46 is Framework</i>	<p>7.46 Replacement Current cost is the cost of replacing an asset's service potential. Current Replacement cost adopts an optimized approach and differs from reproduction cost, which is the cost of acquiring an</p>	Framework, Chapter 7

⁴-The full term is "optimized depreciated replacement cost" to denote that it refers to the replacement of the service potential embodied in an asset and not the asset itself. (see paragraph 7.41) The term "replacement cost" is used for economy of expression in the Framework.

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
paragraph 7.40	<p>identical asset.⁵ Although in many cases the most economic replacement of the service potential will be by purchasing an asset that is similar to that which is controlled, currentreplacement cost is based on an alternative asset if that alternative would provide the same service potential more cheaply. For financial reporting purposes, it is therefore necessary to reflect the difference in service potential between the existing and replacement asset.</p>	
Paragraph 7.47 is Framework paragraph 7.41	<p>7.47 The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service capacity to deal with contingencies. Therefore, the replacementcurrent cost of an asset reflects reductions in required service capacity. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for current and reasonably foreseeable requirements, the replacementcurrent cost of the asset is that of a school for 100 pupils.</p>	Framework, Chapter 7
Paragraph 7.48 is Framework paragraph 7.42	<p>7.48 In some cases the value that will be derived from an asset will be greater than its replacementcurrent cost. However, it would not be appropriate to measure the asset at that value, as it includes benefits from future activities, rather than service potential at the reporting date. ReplacementCurrent cost represents the highest potential value of an asset, as, by definition, the entity is able to secure equivalent service potential by incurring currentreplacement cost.</p>	Framework, Chapter 7
Framework paragraphs 7.43-7.44 are moved below to reflect ordering of measurement objective (see Agenda Item 7.2.21)	<p>Cost of Services</p> <p>7.43 Replacement cost provides a relevant measure of the cost of the provision of services. The cost of consuming an asset is equivalent to the amount of the sacrifice of service potential incurred by that use. That amount is its replacement cost—the entity is able to restore its position to that prevailing immediately before the consumption of the asset by an outlay equal to replacement cost.</p>	Framework, Chapter 7
	<p>7.44 The costs of services are reported in current terms when based on replacement cost. Thus the amount of assets consumed is stated at the value of the assets at the time they are consumed—and not, as with historical cost, at the time they were acquired. This provides a valid basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period—which are generally transactions of the current period and measured in current prices—and for assessing whether resources have been</p>	Framework, Chapter 7

⁵ There may be cases where ~~replacement~~current cost equates to reproduction cost. This is where the most economic way of replacing service potential is to reproduce the asset.

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p>used economically and efficiently. It also provides a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition dates, and for assessing the cost of providing services in the future and future resource needs, as future costs are more likely to resemble current costs than those incurred in the past, when prices were different (see also paragraph 7.48).</p>	
<p>Paragraph 7.49 is Framework paragraph 7.45</p>	<p>Operational Capacity</p> <p>7.49 In principle, current replacement cost provides a useful measure of the resources available to provide services in future periods, as it is focused on the current value of assets and their service potential to the entity.</p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.50 is Framework paragraph 7.46</p>	<p>Financial Capacity</p> <p>7.50 Replacement Current cost does not provide information on the amounts that would be received on the sale of assets. It therefore does not facilitate an assessment of financial capacity.</p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.51 is Framework paragraph 7.43</p>	<p>Cost of Services</p> <p>7.51 Current cost provides a relevant measure of the cost of the provision of services. The cost of consuming an asset is equivalent to the amount of the sacrifice of service potential incurred by that use. That amount is its current cost—the entity is able to restore its position to that prevailing immediately before the consumption of the asset by an outlay equal to current cost.</p>	
<p>Paragraph 7.52 is Framework paragraph 7.44</p>	<p>7.52 The costs of services are reported in current terms when based on current cost. Thus the amount of assets consumed is stated at the value of the assets at the time they are consumed—and not, as with historical cost, at the time they were acquired. This provides a valid basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period—which are generally transactions of the current period and measured in current prices—and for assessing whether resources have been used economically and efficiently. It also provides a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition dates, and for assessing the cost of providing services in the future and future resource needs, as future costs are more likely to resemble current costs than those incurred in the past, when prices were different.</p>	
<p>Paragraph 7.53 is Framework</p>	<p>Application of the Qualitative Characteristics</p>	

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
paragraph 7.47	7.53 As noted above, replacement current cost is relevant to assessments of the cost of services and operational capacity. It is not relevant to assessments of financial capacity. In some circumstances calculation of replacement current cost is complex, and subjective judgments are required. These factors may reduce the representational faithfulness of replacement cost. In these circumstances the timeliness, comparability and verifiability of information prepared on a replacement current cost basis may be affected, and replacement current cost may be more costly than some alternatives. Replacement Current cost information may also not be straightforward to understand, particularly when that information reflects a reduction in required service capacity (see paragraph 7.4641).	Framework, Chapter 7
Paragraph 7.54 is Framework paragraph 7.48	7.54 Replacement Current cost information is comparable within an entity as assets that provide equivalent service potential are stated at similar amounts, regardless of when those assets were acquired. In principle different entities may report similar assets at different amounts, because replacement current cost is an entity-specific measure that reflects the opportunities for replacement that are available to the entity. The opportunities for replacement may be the same or similar for different public sector entities. Where they are different, the economic advantage of an entity that is able to acquire assets more cheaply is reported in financial statements through lower asset values and a lower cost of services in order to be representationally faithful.	Framework, Chapter 7
Framework paragraph 7.49-57 are deleted (see Agenda Item 7.2.20)	Net Selling Price 7.49—Net selling price is: The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.	Framework, Chapter 7
	7.50—Net selling price differs from market value in that it does not require an open, active and orderly market or the estimation of a price in such a market and that it includes the entity's costs of sale. Net selling price therefore reflects constraints on sale. It is entity-specific.	Framework, Chapter 7
	7.51—The potential usefulness of measuring assets at net selling price is that an asset cannot be worth less to the entity than the amount it could obtain on sale of the asset. However, it is not appropriate as a measurement basis if the entity is able to use its resources more efficiently by employing the asset in another way, for example by using it in the delivery of services.	Framework, Chapter 7

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p>7.52 Net selling price is therefore useful where the most resource-efficient course available to the entity is to sell the asset. This is the case where the asset cannot provide service potential or the ability to generate economic benefits at least as valuable as net selling price. Net selling price may provide useful information where an entity is contractually obligated to sell an asset at below market value. There may be cases where net selling price can indicate a development opportunity.</p> <p><i>Costs of Services</i></p> <p>7.53 It is not appropriate to quantify the cost of the provision of services at net selling prices. Such an approach would involve the use of an exit value as the basis of the expense reported.</p> <p><i>Operational Capacity</i></p> <p>7.54 Stating assets held for use in the provision of services at net selling price does not provide information useful to an assessment of operating capacity. Net selling price shows the amount that could be derived from an asset's sale, rather than the value of the service potential that could be derived from that asset.</p> <p><i>Financial Capacity</i></p> <p>7.55 As noted above, an assessment of financial capacity requires information on the amount that would be received on sale of an asset. Such information is provided by the use of net selling price. However, such a measure is not relevant for assets that may yield more valuable service potential by continuing to use them to deliver services.</p> <p><i>Application of the Qualitative Characteristics</i></p> <p>7.56 As indicated in paragraph 7.52 net selling price provides relevant information only where the most resource-efficient course available to the entity is to sell the asset. Assessments of net selling price may be made by reference to active markets where they exist. For major assets it may be possible and cost-effective to obtain professional appraisals. Net selling price will generally provide understandable information.</p> <p>7.57 In most cases where net selling price is relevant, it will achieve the qualitative characteristics of faithful representation, verifiability, and timeliness.</p>	<p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p>
Paragraph 7.55 is Framework	<p>Value in Use</p> <p>7.55 Value in use is:</p> <p><i>The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be</i></p>	<p>Framework, Chapter 7</p>

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
paragraph 7.58	<i>used, and of the net amount that the entity will receive from its disposal at the end of its useful life.</i>	
Paragraph 7.56 is Framework paragraph 7.59. Revised to address 7.2.17.	<p>Suitability of Value in Use</p> <p>7.56 Value in use is an entity-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. <i>It therefore differs from fair value less costs to sell, which reflects market expectations on sale proceeds. As noted in paragraph 7.42 above, the</i>The value that will be derived from an asset is often greater than its <i>replacement-current</i> cost—it is also usually greater than its historical cost. Where this is the case, reporting an asset at its value in use is of limited usefulness, as by definition, the entity is able to secure equivalent service potential at <i>replacement-current</i> cost.</p>	Framework, Chapter 7
Framework paragraph 7.60-61 are deleted because guidance on net selling price was removed (see Agenda Item 7.2.20)	<p>7.60 Value in use is also not an appropriate measurement basis when net selling price is greater than value in use, as in this case the most resource-efficient use of the asset is to sell it, rather than continue to use it.</p> <p>7.61 Therefore, value in use is appropriate where it is less than replacement cost and greater than net selling price. This occurs where an asset is not worth replacing, but the value of its service potential or ability to generate economic benefits is greater than its net selling price. In such circumstances value in use represents the value of the asset to the entity.</p>	Framework, Chapter 7
Paragraph 7.57 is Framework paragraph 7.62	7.57 Value in use is an appropriate measurement basis for the assessment of <i>certain</i> impairments, because it is used in the determination of the recoverable amount for an asset or group of assets.	Framework, Chapter 7
Paragraph 7.58 is Framework paragraph 7.63. Revisions reflect Agenda Items 7.2.3, and 7.2.20.	<p>Costs of Services, Operational Capacity, Financial Capacity and Costs of Services</p> <p>7.58 Because of its potential complexity⁶, its limited applicability and the fact that its operationalization in a public sector context for non-cash-generating assets involves the use of <i>replacement cost as</i> a surrogate, value in use is generally inappropriate for determining the cost of services. Its usefulness to assessments of operational capacity is limited, and is only likely to be significant in the atypical circumstances where entities have a large number of assets that are not worth replacing, but their value in use is greater than <i>their net selling price</i><i>fair value less costs to sell</i>. This may be the case if, for example, an entity will discontinue provision of a service in the</p>	Framework, Chapter 7

⁶ See below paragraph 7.XX66.

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	future, but the proceeds of immediate sale are less than the service potential embodied in the assets. Value in use does involve an estimate of the net amount that an entity will receive from disposal of the asset. However, its limited applicability reduces its relevance for assessments of financial capacity.	
Paragraph 7.59 is Framework paragraph 7.64	<p><i>Application of the Qualitative Characteristics</i></p> <p>7.59 While value in use may be used in assessments of certain impairments its relevance for financial reporting purposes is limited to the circumstances outlined in paragraph 7.61 above.</p>	Framework, Chapter 7
Paragraph 7.60 is Framework paragraph 7.65	7.60 The extent to which value in use meets the other qualitative characteristics depends on how it is determined. In some cases, an asset's value in use can be quantified by calculating the value that the entity will derive from the asset assuming its continued use. This may be based on the future cash inflows related to the asset, or on cost savings that will accrue to the entity through its control of the asset. The calculation of value in use takes into account the time value of money and, in principle, the risk of variations in the amount and timing of cash flows.	Framework, Chapter 7
Paragraph 7.61 is Framework paragraph 7.66	7.61 The calculation of value in use can be complex. Assets that are employed in cash-generating activities often provide cash flows jointly with other assets. In such cases value in use can be estimated only by calculating the present value of the cash flows of a group of assets and then making an allocation to individual assets.	Framework, Chapter 7
Paragraph 7.62 is Framework paragraph 7.67	7.62 In the public sector, most assets are held with the primary objective of contributing to the provision of services, rather than to-for the generation of a commercial return: such assets are referred to as "non-cash-generating assets." Because value in use is usually derived from expected cash flows, its operationalization in such a context can be difficult. It may be inappropriate to calculate value in use on the basis of expected cash flows, because such a measure would not be faithfully representative of the value in use of such an asset to the entity. Therefore, it is would be necessary to use replacement cost as a surrogate for financial reporting purposes.	Framework, Chapter 7
Paragraph 7.63 is Framework paragraph 7.68	7.63 The method of determining value in use reduces its representational faithfulness in many cases. It also affects the timeliness, comparability, understandability and verifiability of information prepared on a value in use basis.	Framework, Chapter 7
	Measurement Bases for Liabilities	

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
Paragraph 7.64 is Framework paragraph 7.69. Revised to reflect Board Decision in June 2020 (Agenda Item 6.2.4) and Agenda Item 7.2.3.	<p>7.64 This section discusses the measurement bases for liabilities. This section does not repeat all the discussion in the section on assets. It considers the following measurement bases:</p> <ul style="list-style-type: none"> • Historical Cost; • Cost of FulfillmentSettlement; and • Market Value; • Cost of Release; and • Assumption Price Fair Value 	Framework, Chapter 7
Paragraph 7.65 is Framework paragraph 7.70	<p>Historical Cost</p> <p>7.65 Historical cost for a liability is: <i>The consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.</i></p>	Framework, Chapter 7
Paragraph 7.66 is Framework paragraph 7.71	<p>7.66 Under the historical cost model initial measures may beare adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of discount or amortization of a premium.</p>	Framework, Chapter 7
Paragraph 7.67 is Framework paragraph 7.72	<p>7.67 Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant—the amount of the future payment is discounted so that, at the time a liability is first recognized, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.</p>	Framework, Chapter 7
Paragraph 7.68 is Framework paragraph 7.73	<p>7.68 The advantages and drawbacks of using the historical cost basis for liabilities are similar to those that apply in relation to assets. Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is also unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.</p>	Framework, Chapter 7
This section is revised to reflect renaming	<p>Cost of FulfillmentSettlement</p>	

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
proposed (see Agenda Item 7.2.3).		
Paragraph 7.69 is Framework paragraph 7.74	7.69 Cost of fulfillment settlement is: <i>The costs that the entity will incur in fulfilling-settling the obligations represented by the liability, assuming that it does so in the least costly manner.</i>	Framework, Chapter 7
Paragraph 7.70 is Framework paragraph 7.75	7.70 Where the cost of settlement fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillmentsettlement , which aims to reflect all those possible outcomes in an unbiased manner.	Framework, Chapter 7
Paragraph 7.71 is Framework paragraph 7.76	7.71 Where fulfillment settlement requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of settlingfulfilling the obligation.	Framework, Chapter 7
Paragraph 7.72 is Framework paragraph 7.77	7.72 Where fulfillment settlement will be made by the entity itself, the fulfillment settlement cost does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the settlement fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources—this is consistent with the approach for assets, where replacement cost would include the profit required by a supplier, but no profit would be included in the replacement cost for assets that the entity would replace through self-construction.	Framework, Chapter 7
Paragraph 7.73 is Framework paragraph 7.78	7.73 Where settlement fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the reporting date.	Framework, Chapter 7
Paragraph 7.74 is Framework paragraph 7.79	7.74 Cost of fulfillment settlement is generally relevant for measuring liabilities except in the following-rare circumstances where : <ul style="list-style-type: none"> Where tThe entity can obtain release from an obligation at a lower amount than cost of fulfillment, then cost of release is a more relevant measure of the current burden of a liability, just as, for an asset, net selling price is more relevant when it is higher than value in use; and/or In the case of IA liabilityies assumed for a consideration, 	Framework, Chapter 7

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
<p>This section is revised to reflect Board Decision in June 2020 that market value is not a basis (Agenda Item 6.2.3)</p>	<p>assumption price (see paragraphs 7.87–7.91) is more relevant when assumption price is higher than both cost of fulfillment and cost of release and that consideration.</p> <p>Market-Fair Value</p>	
<p>Paragraph 7.75 is Framework paragraph 7.80</p>	<p>7.75 Market-Fair value for liabilities is:</p> <p>The amount for which a liability which would paid to transfer a liability in an orderly transaction between market participants at the measurement date, could be settled between knowledgeable, willing parties in an arm's length transaction.</p>	<p>Framework, Chapter 7</p>
<p>Paragraph 7.76 is Framework paragraph 7.81</p>	<p>7.76 The advantages and disadvantages of market-valuefair value for liabilities are the same as those for assets. Such a measurement basis may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an open, active and orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear the case for market valuesfair value, even if they exist, is significantly weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions, because it is unlikely that there will be an open, active and orderly market for such liabilities.</p>	<p>Framework, Chapter 7</p>
<p>Framework paragraph 7.82-7.86 are deleted (see Agenda Item 7.2.18)</p>	<p>Cost-of Release</p> <p>7.82 “Cost of release” is the term used in the context of liabilities to refer to the same concept as “net selling price” in the context of assets. Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Where there is more than one way of securing release from the liability, the cost of release is that of the lowest amount—this is consistent with the approach for assets, where net selling price would not reflect the amount that would be received on sale to a scrap dealer, if a higher price could be obtained from sale to a purchaser who would use the asset.</p> <p>7.83 For some liabilities, particularly in the public sector, transfer of a liability is not practically possible and cost of release will therefore be the amount that the creditor will accept in settlement of its claim. This</p>	<p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p>

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p>amount will be known if it is specified in the agreement with the creditor—for example, where a contract includes a specific cancellation clause.</p> <p>7.84 In some cases there may be evidence of the price at which a liability may be transferred—for example, in the case of some pension liabilities. Transferring a liability may be distinguished from entering into an agreement with another party that will fulfill the entity's obligation or bear all the costs stemming from a liability. For a liability to be transferred it is necessary that all of the creditor's rights against the entity are extinguished. If this is not the effect of an arrangement, the liability remains a liability of the entity.</p> <p>7.85 In assessing whether cost of release is appropriate for measuring liabilities it is necessary to consider whether release in the envisaged manner is an option that is open to the entity in practice, having regard to any consequences of obtaining release, such as damage to the entity's reputation.</p> <p>7.86 Just as net selling price is relevant only when the most resource-efficient course available to the entity is to sell the asset, so cost of release is relevant only when the most resource-efficient course is to seek immediate release from an obligation. In particular, where cost of fulfillment is lower than cost of release, cost of fulfillment provides more relevant information than cost of release, even if it is feasible to negotiate a release from the obligation in accordance with the methods for transferring a liability in paragraph 7.84.</p>	<p>Original Source</p> <p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p>
<p>Framework paragraph 7.87-7.91 are deleted (see Agenda Item 7.2.19)</p>	<p>Assumption Price</p> <p>7.87 "Assumption price" is the term used in the context of liabilities to refer to the same concept as replacement cost for assets. Just as replacement cost represents the amount that an entity would rationally pay to acquire an asset, so assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability. Exchange transactions carried out on arms-length terms will provide evidence of assumption price—this is not the case for non-exchange transactions.</p> <p>7.88 In the context of an activity that is carried out with a view to profit, an entity will assume a liability only if the amount it is paid to assume the liability is greater than the cost of fulfillment or release—i.e., the</p>	<p>Framework, Chapter 7</p> <p>Framework, Chapter 7</p>

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p>settlement amount. Once that assumption price has been received by the entity, the entity has an obligation to its creditor.</p>	
	<p>7.89—At the time a liability is first incurred in an exchange transaction, assumption price represents the amount that was accepted by the entity for assuming the liability—it is therefore usually reasonable to assume that assumption price is the price that the entity would rationally accept for assuming a similar liability. It would charge a higher amount, if competitive pressures allowed it to do so, but it might be unwilling to accept a lower price. Just as replacement cost is a current value so, conceptually, is assumption price. There are, however, practical problems in reflecting changes in prices in obligations that are stated at assumption price.</p>	<p>Framework, Chapter 7</p>
	<p>7.90—A consequence of stating performance obligations at the assumption price is that no surplus is reported at the time the obligation is taken on. A surplus or deficit is reported in the financial statements in the period when fulfillment (or release) takes place, as it is the difference between the revenue arising from satisfaction of the liability and the cost of settlement.</p>	<p>Framework, Chapter 7</p>
	<p>7.91—An entity may have a potential obligation that is larger than assumption price. If the entity has to seek release from a contract, the other party to the contract may be able to claim recompense for losses that it will sustain, as well as the return of any amounts paid. However, provided that the entity can settle the obligation by fulfillment, it can avoid such additional obligations and it is representationally faithful to report the obligation at no more than assumption price—this is analogous to the position where an asset will yield greater benefits than replacement cost. Under such circumstances, as explained in paragraph 7.42, replacement cost rather than value in use is the most relevant measurement basis.</p>	<p>Framework, Chapter 7</p>

NOTES	DRAFT ED 76, <i>Conceptual Framework – Limited-Scope Update</i>	Original Source
	<p>Basis for Conclusions</p> <p><i>This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.</i></p> <p>The Role of Measurement in the Conceptual Framework</p>	
<p>BC7.1-BC7.45 are unchanged from Framework Chapter 7</p>	<p>BC7.1 The IPSASB decided that the initial focus of the Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, <i>Measurement of Assets and Liabilities in Financial Statements</i> (the Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it.</p>	<p>Framework, Chapter 7</p>
	<p>The Objective of Measurement</p> <p>BC7.2 The IPSASB considered whether a specific measurement objective should be developed. The IPSASB initially took the view that a separate measurement objective was unnecessary, because a measurement objective might compete with, rather than complement, the objectives of financial reporting and the qualitative characteristics. Accordingly, Exposure Draft, <i>Measurement of Assets and Liabilities in Financial Statements</i> (the Exposure Draft), proposed factors relevant to the selection of a measurement basis consistent with the objectives of financial reporting and the qualitative characteristics, but did not include a measurement objective.</p>	<p>Framework, Chapter 7</p>
	<p>BC7.3 Consistent with this approach the Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements—in particular, it would allow the amounts of different assets and liabilities to be aggregated to provide meaningful totals. However, the IPSASB is of the view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics.</p>	<p>Framework, Chapter 7</p>

	<p>BC7.4 The Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:</p> <p><i>To select those measurement attributes that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.</i></p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.5 Many respondents, while generally in favor of the approach in the Exposure Draft, supported the Alternative View. The IPSASB also acknowledges the view that the Conceptual Framework's approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement basis underpinned by an ideal concept of capital⁷. The IPSASB accepts that the operating capability concept is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.15–BC7.19, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.6 Subsequently the IPSASB was persuaded by the views of those who argue that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the</p>	<p><i>Framework, Chapter 7</i></p>

⁷ Such concepts of capital include invested money capital, current cash equivalents and operating capability.

	<p>IPSASB notes that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to financial capacity and operational capacity. The IPSASB concluded that linking a measurement basis to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard-setting in the public sector.</p>	
BC7.7	<p>The IPSASB considered whether the measurement objective proposed in the Alternative View was appropriate. Some argued that the proposed measurement objective was too aligned to current value measures. However the IPSASB formed a view that the reference to “cost of services” provides a sufficient link to historical cost, because the cost of services can be determined using both historical cost and current value measures. The IPSASB therefore adopted the following measurement objective with only a minor modification from that proposed in the Alternative View:</p> <p><i>To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.</i></p>	Framework, Chapter 7
BC7.8	<p>The IPSASB also notes that the disadvantages of using different measurement bases may be minimized by:</p> <ul style="list-style-type: none"> • Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and • Requiring transparent presentation and disclosure to ensure that the measurement bases used and the amounts reported on each basis are clear. 	Framework, Chapter 7
	<p>Initial and Subsequent Measurement</p> <p>BC7.9 A measurement basis needs to be selected both when an asset or liability is recognized for the first time—initial measurement—and when it is reported in the financial statements of a later period—subsequent measurement. Some accounting policies are expressed in a way that</p>	Framework, Chapter 7

	may suggest that different principles apply to initial and subsequent measurement. For example, an asset may initially be recognized at transaction price and subsequently at a current value. The IPSASB therefore considered whether the Conceptual Framework should discuss initial and subsequent measurement separately.	
	BC7.10 One reason why different measurement bases may be specified for initial and subsequent measurement is that the basis to be used for subsequent measurement is not available at the time of initial measurement. This is particularly common in the public sector where assets are sometimes contributed, or provided on subsidized terms, or in exchange for other non-cash assets. In such a case the value of the transaction may be unknown, and if the asset is to be subsequently accounted for at an entry value such as historical cost or replacement cost, another basis has to be specified for initial measurement as a surrogate for the amount at which the asset would be stated if purchased on arm's-length terms. Surrogates may also be required for the initial measurement of assets acquired before the introduction of accrual accounting where the transaction price is not known. The use of surrogates that meet the measurement objective and the qualitative characteristics is an application of a measurement basis rather than a departure from it.	<i>Framework, Chapter 7</i>
	BC7.11 Another reason for an apparent difference in initial and subsequent measurement arises where an asset is to be accounted for at a current value, and the transaction price is deemed to reflect the particular current measurement basis that will be used. In such a case, specifying that the asset is to be initially recognised at transaction price makes it clear that that application of the policy will not result in the recognition of revenue and expense on initial recognition—"day one" gains or losses. In principle, the same measurement basis is used for both initial and subsequent recognition—the requirements for each are specified differently in order to assist understanding.	<i>Framework, Chapter 7</i>
	BC7.12 The IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement. Accordingly the discussion in this Chapter is applicable to both situations.	<i>Framework, Chapter 7</i>
	Entry and Exit Values: Value in Use	<i>Framework, Chapter 7</i>

	<p>BC7.13 Measurement bases can be classified according to whether they provide an entry or exit perspective. As discussed in paragraph 7.8 entry values reflect the cost of purchase and exit values reflect either:</p> <ul style="list-style-type: none"> • The economic benefits from immediate sale; or • The amount that will be derived from the asset from its use and subsequent sale. <p>The IPSASB is of the view that awareness of whether a measurement basis is an entry or exit value is useful in determining which measurement basis best meets the measurement objective.</p>	
	<p>BC7.14 The IPSASB considered whether value in use should be classified as an entry value or an exit value. For a cash-generating asset value in use involves a discounted cash flow model using expected cash flows from the sale of good and services. For non-cash-generating assets value in use uses replacement cost as a surrogate—replacement cost is an entry value. This led some to express a view that for a non-cash-generating asset value in use has an entry perspective while an asset is being used and an exit perspective when sold—in this view a failure to indicate that value in use contains both entry and exit perspectives does not reflect public sector circumstances. The IPSASB acknowledges this view, but does not think that the use of replacement cost as a surrogate to calculate value in use means that value in use becomes an entry value. The IPSASB therefore concluded that value in use is an exit value for both cash-generating and non-cash-generating assets.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>Measurement Bases for Assets</p> <p>Historical Cost</p> <p>BC7.15 Historical cost is a widely applied measurement basis in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost. They also noted that, because historical cost is widely adopted in combination with other measurement bases, its continued use avoids the costs that would arise if a future revision of a current</p>	<p><i>Framework, Chapter 7</i></p>

	standard that requires or permits historical cost were to require the use of a different measurement basis.	
	BC7.16 Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is particularly important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.	Framework, Chapter 7
	BC7.17 The IPSASB agrees that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity, and accepts that users are interested in the cost of services based on actual transactions. Historical cost provides information on what services actually cost in the reporting period, rather than what they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.	Framework, Chapter 7
	BC7.18 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results and the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that where this is the case historical cost enhances comparison against budget.	Framework, Chapter 7
	BC7.19 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both decision making and accountability purposes. Because historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.	Framework, Chapter 7
	Market Value and Fair Value	Framework, Chapter 7
	BC7.20 The Exposure Draft did not propose fair value as a measurement basis. Rather it proposed market value, which was defined in the same way as fair value in the	

	<p>IPSASB's literature at the time the Conceptual Framework was developed. A number of respondents challenged the omission of fair value as a measurement basis. They pointed out that fair value is a measurement basis that is defined and used in specifying measurement requirements by many global and national standard setters and that a definition of fair value had been used extensively in IPSASB's literature. Many supporters of fair value considered that the definition should be an exit value as defined in International Financial Reporting Standards (IFRS).⁸</p>	
	<p>BC7.21 The IPSASB's rationale for the approach proposed in the Exposure Draft was that fair value is similar to market value and the inclusion of both measurement bases could be confusing to users of financial statements. The IPSASB also noted that fair value in IFRS is explicitly an exit value—unlike the definition of fair value in the IPSASB's literature at the time the Conceptual Framework was developed. Therefore, the relevance of fair value in the public sector is likely to be primarily limited to providing information on financial capacity, rather than on providing information on operating capacity and the cost of services. In addition, in this chapter replacement cost is a measurement basis in its own right, rather than a valuation technique to determine fair value.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.22 In the public sector many assets are specialized and differences in entry and exit prices are therefore significant. Where an asset will provide future services or economic benefits with a greater value than the asset's exit price, a measure reflecting exit values is not the most relevant basis. Where the most resource efficient course is to sell the asset—because the value of the services that it will provide or the expected cash flows from use is not as great as the value receivable from sale, the most relevant measurement basis is likely to be net selling price, which reflects the costs of sale and, although likely to be based on market evidence, does not assume the existence of an open, active and orderly market.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.23 In considering the merits of fair value as a measurement basis, the IPSASB accepted that fair value provides a relevant basis for assessing a financial return. Where assets are stated at fair value, financial performance can</p>	<p><i>Framework, Chapter 7</i></p>

⁸ IFRS 13, *Fair Value Measurement*, provides the definition of fair value.

	be assessed in the context of the return implicit in market values. However, public sector activities are not generally carried out with a view to obtaining a financial return, so the relevance of assessing any such return is limited.	
	<p>BC7.24 In finalizing the measurement chapter the IPSASB considered three main options in dealing with this issue:</p> <ul style="list-style-type: none"> • Adopt an exit value-based definition of fair value; • Retain the definition of fair value in IPSAS prior to the development of the Conceptual Framework; or • Include market value, rather than fair value, as a measurement basis as proposed in the Exposure Draft. 	<i>Framework, Chapter 7</i>
	<p>BC7.25 Adopting an exit value-based definition of fair value would have meant using a definition that is not well aligned with the objectives of most public sector entities—the delivery of services rather than the generation of cash flows. It is questionable whether exit value-based measures would provide relevant information for many assets held for their operational capacity and for liabilities where it is not feasible to transfer the liability.</p>	<i>Framework, Chapter 7</i>
	<p>BC7.26 Including the IPSASB's current definition of fair value or a slightly modified version of that definition in the Conceptual Framework would have meant that two global standard setters would have different conceptual definitions of the same term.</p>	<i>Framework, Chapter 7</i>
	<p>BC7.27 The IPSASB acknowledged that not including fair value as a measurement basis would have implications for the IPSASB's extant literature at the time the Conceptual Framework was finalized, because a number of IPSAS's contained fair value in measurement requirements or options.</p>	<i>Framework, Chapter 7</i>
	<p>BC7.28 On balance, the IPSASB concluded that, rather than include an exit value-based definition of fair value, or a public sector specific definition of fair value, the Conceptual Framework should include market value as a measurement basis rather than fair value. The IPSASB sees fair value as a model to represent a specific measurement outcome. The IPSASB may carry out further work at standards level to explain how the measurement bases in this chapter align with fair value, as implemented in IFRS.</p>	<i>Framework, Chapter 7</i>

	<p>Replacement Cost, Net Selling Price and Value in Use</p> <p>BC7.29 Because, the objective of public sector entities is to deliver services, often in non-exchange transactions, rather than to make profits many non-financial assets are held for operational purposes. Furthermore, many of these assets are specialized and unlikely to be purchased or sold in open, active and orderly markets. Market value facilitates an assessment of financial capacity and operational capacity where operational assets are not specialized and are traded in open, active and orderly markets. However, current measurement bases other than market value are necessary in order to provide useful information on the cost of services and operational capacity where assets are specialized and where market-based information is limited.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.30 In evaluating measurement bases that provide the most useful information for specialized operational assets the IPSASB sought a basis that reflects the continuing provision of goods and services by public sector entities. The most appropriate basis for such assets is one that provides information on the cost of service potential that is attributable to an asset.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.31 The IPSASB considered reproduction cost as a potential measurement basis. Reproduction cost is easily understandable. However, it reflects the cost of obtaining an identical asset, rather than the cost of replacing the service potential provided by an asset. Therefore, reproduction cost may reflect features of assets that no longer serve any economic purpose and its use may exaggerate the value of an asset. Replacement cost avoids this risk because it is based on the most economic cost required for the entity to replace the service potential of an asset. While accepting that the calculation of replacement cost may in some cases be complex and involve subjective judgments, the IPSASB concluded that replacement cost is the current value measurement basis that often best meets the measurement objective and achieves the qualitative characteristics. The IPSASB acknowledged that guidance will be necessary at standards level on the approach to implementation of replacement cost.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.32 The IPSASB acknowledged that replacement cost will not always be an appropriate measurement basis for</p>	<p><i>Framework, Chapter 7</i></p>

	<p>specialized operational assets. There may be circumstances where an entity no longer intends to continue to operate an asset. In such circumstances replacement cost is not a useful measurement basis, because it would not be rational for the entity to replace the service potential provided by an asset. The IPSASB therefore considered the appropriate measurement basis for such circumstances. Under these circumstances an entity-specific measurement basis that reflects the constraints on sale for an entity and provides an exit value is more appropriate. The IPSASB concluded that net selling price best meets the measurement objective. Net selling price is therefore included as a measurement basis in this chapter. Net selling price also provides information that meets the measurement objective, where an entity is contractually required, or in a binding arrangement, to sell an asset at below market value, perhaps in order to meet a social or political objective.</p>	
	<p>BC7.33 In order to provide a complete analysis of the circumstances under which public sector entities operate, the IPSASB also considered the situation where it would not be rational for an entity to seek to replace the service potential embodied in an asset, but it is still more rational for the entity to continue to operate the asset than to sell it immediately. Value in use includes the cash flows or service potential from continued operation of the asset and the proceeds of sale. The IPSASB therefore concluded that value in use should be included as a potential measurement basis. The IPSASB acknowledged that this measurement basis is not straightforward to operationalize in a non-cash-generating context, and that, in determining value in use, it might therefore be necessary to use replacement cost as a surrogate.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>Fair Value Model</p> <p>BC7.34 As indicated in paragraph BC7.20 the Exposure Draft did not propose fair value as a measurement basis in its own right. However, it proposed the fair value measurement model as a method of estimating a measurement where it had been determined that market value is the appropriate measurement basis, but the market is inactive or otherwise not open or orderly.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.35 A minority of respondents to the Exposure Draft supported the fair value measurement model. Some of these respondents thought that the IPSASB should provide</p>	<p><i>Framework, Chapter 7</i></p>

	<p>further details of its application. Others were supportive of the model, but suggested that a detailed measurement model would be inappropriate for the Conceptual Framework—some of these respondents considered that it should be addressed as a standards-level estimation technique. Many respondents put forward a view that fair value should be proposed as a measurement basis in its own right using the IFRS definition, while others wanted more detail on approaches to estimating fair value to complement its adoption as a measurement basis. Conversely, other respondents expressed a view that fair value is inappropriate for the public sector.</p>	
	<p>BC7.36 The IPSASB found the views of those who considered the fair value model too low level for the Conceptual Framework persuasive. The IPSASB also accepted the view of those respondents who felt that not defining fair value as a measurement basis, but reintroducing fair value through the model was confusing. The IPSASB therefore decided not to include the fair value model in the final chapter.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>Derival Value Model</p> <p>BC7.37 The Consultation Paper discussed the deprival value model as a rationale for selecting a current value basis. Some respondents expressed reservations—in particular that the model would be costly and impose a disproportionate burden on preparers to have to consider three possible measurement bases for each asset that is reported. A number of respondents also considered that it is overly complex. A view was also expressed that the deprival value model unduly exaggerates the qualitative characteristic of relevance and neglects the other qualitative characteristics.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.38 Although the IPSASB recognized that the deprival value model has been adopted successfully in some jurisdictions, the IPSASB acknowledged such reservations in whole or part. The IPSASB therefore included the deprival value model in the Exposure Draft as an optional method of choosing between replacement cost, net selling price, and value in use where it had been decided to use a current measurement basis, but the appropriate basis could not be identified by reference to the objectives of financial reporting and the qualitative characteristics.</p>	<p><i>Framework, Chapter 7</i></p>

	<p>BC7.39 Although a minority of respondents to the Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model's complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model—if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the deprival value model in the Conceptual Framework. However, some of the insights provided by the model in its analysis of the relationship between replacement cost, net selling price and value in use have been retained—for example, that it is inappropriate to measure an asset at replacement cost if the higher of net selling price or value in use is lower than replacement cost.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>Symbolic Values</p> <p>BC7.40 In some jurisdictions certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.</p>	<p><i>Framework, Chapter 7</i></p>
	<p>BC7.41 The IPSASB acknowledges that such an approach is intended to provide useful information. However, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, <i>Elements in Financial Statements</i>, and Chapter 6, <i>Recognition in Financial Statements</i>. The IPSASB also accepted that, in cases where, it is impossible or very costly to obtain a valuation, it is important that the information to be provided through disclosures is carefully considered at standards level.</p>	<p><i>Framework, Chapter 7</i></p>

	<p>Measurement Bases for Liabilities</p> <p>Assumption Price and Cost of Release</p> <p>BC7.42 The IPSASB acknowledged the views of those who noted that, as many services are provided by public sector entities in non-exchange transactions there will often not be an assumption price. The IPSASB accepted that the circumstances under which assumption price will meet the measurement objective are limited. However, insurance and similar obligations, such as financial guarantees, are liabilities where assumption price might provide relevant and faithfully representative information. In such cases liabilities might be revalued at assumption price to reflect changes in risk premiums following initial recognition.</p>	Framework, Chapter 7
	<p>BC7.43 Some respondents to the Exposure Draft also questioned whether cost of release should be included. The IPSASB acknowledged that in many cases in the public sector, particularly for non-exchange transactions, there is unlikely to be a cost of release, because there will not be an external party willing to accept the transfer of a liability from the obligor for a specified amount. Even where a cost of release can be determined the external party is unlikely to accept a sum lower than cost of fulfillment in settlement. Therefore, liabilities arising from non-exchange transactions are likely to be measured at the cost of fulfillment, and this will often be the only practical and relevant measurement basis. Nevertheless the IPSASB decided to retain assumption price and cost of release as measurement bases in the Conceptual Framework as there may be limited circumstances where these measurement bases meet the measurement objective.</p>	Framework, Chapter 7
	<p>Other Issues</p> <p>BC7.44 The Consultation Paper sought the views of respondents on the following two issues related to measurement:</p> <ul style="list-style-type: none"> • The treatment of an entity's own credit risk and changes in value attributable to changes in an entity's own credit risk; and • Whether the measurement of an asset should reflect only the service potential relating to its existing use, or whether the measurement of an asset should include the incremental value relating to its possible alternative use. 	Framework, Chapter 7

	<p>BC7.45 The majority of respondents who commented on these issues considered that they were more appropriately dealt with at standards level rather than in the Conceptual Framework. The IPSASB concurred with this view, and these issues are accordingly not addressed in the Conceptual Framework. The IPSASB noted that where a market value is used to measure a liability it is necessary to consider the treatment of the entity's own credit risk.</p>	<p>Framework, Chapter 7</p>
	<p><u>Revisions to Conceptual Framework</u></p> <p><u>Reasons for Amending Conceptual Framework</u></p> <p>BC7.46 <u>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Framework) was approved in September 2014 and issued in October 2014. Publication of the Framework filled a major gap in the IPSASB's literature. Until 2014 the IPSASB had been implicitly reliant on the former International Accounting Standards Committee's (IASC) Framework for the Preparation and Presentation of Financial Statements, which was published in 1989. The International Accounting Standards Board (IASB) adopted this document shortly after its inception in April 2001.</u></p>	
	<p>BC7.47 <u>On approval in September 2014 the IPSASB decided not to commit to a review of the Framework at that time. Although views were expressed that the Framework should be a 'living document' subject to regular updates there was a broader view that it should be allowed to bed down for a significant period. The decision also reflected the amount of Board time devoted to the Framework, particularly in the four to five years prior to approval, and, to a lesser extent, that over-frequent updates might diminish the accountability of the Board, which is one of the purposes of the Framework.</u></p>	
	<p>BC7.48 <u>In 2018, after having been applied in standards development for over three years the IPSASB considered that a limited scope review of the Framework would be appropriate. This view was reinforced by the fact that the IASB was shortly to issue its finalized Conceptual Framework reflecting post-2014 developments of potential significance. The IPSASB therefore proposed such a project in its Strategy and Work Plan Consultation in 2018. The proposed project received significant support from</u></p>	

	<p><u>respondents for the reasons outlined by the IPSASB. Participants at the June 2019 Public Sector Standard Setters Forum supported the project as did the IPSASB Consultative Advisory Group at its December 2019 meeting. The IPSASB initiated the project in March 2020. In order to emphasize that the project is not a full review of the Framework, the IPSASB renamed the project 'Limited Scope Update of the Conceptual Framework' (staff underlining).</u></p>	
	<p><u>The Measurement Objective</u></p> <p>BC7.49 <u>The Framework includes a measurement objective, which is separate from, but complementary to, the objective of financial reporting in Chapter 2 of the Framework. In the view of the IPSASB the measurement objective has been one of the more influential features of the IPSASB Conceptual Framework.</u></p>	
	<p>BC7.50 <u>The IPSASB's approach to measurement has developed since publication of the Framework. In particular, the starting point for evaluating optimal current value measurement requirements subsequent to initial recognition is to determine whether an asset is held for operational capacity or financial capacity. Because the IPSASB's reporting model is on a modified assets and liabilities basis, the determination of the purpose for which an asset is held impacts the information provided as inputs to the cost of services. The IPSASB amended the measurement objective as follows to reflect the sequence of the decision-making process (new wording underlined, and old wording struck out):</u></p> <p><u>To select those measurement bases that most fairly reflect the cost of services, entity's operational capacity and financial capacity of the entity and thereby provide inputs to information on the cost of services in a manner that is useful in holding the entity to account, and for decision-making purposes.</u></p>	
	<p><u>The Measurement Hierarchy</u></p> <p>BC7.51 <u>The measurement chapter of the Framework published in 2014 did not explicitly distinguish measurement levels. The IASB's <i>Conceptual Framework for Financial Reporting</i> distinguishes three different measurement levels:</u></p>	

	<p><u>(a) Measures or Categories of Measurement Bases (the latter term is used in Basis for Conclusions)</u></p> <p><u>(a)(b) Measurement Bases</u></p> <p><u>(b)(c) Measurement Techniques</u></p>	
	<p>BC7.52 <u>The IPSASB considered that distinguishing different levels, and building on the IASB's approach, would clarify the development of measurement requirements and guidance and provide a versatile analytical Framework. Because the distinction between measures and measurement bases might be ambiguous the following three levels were adopted for the IPSASB Framework and the draft IPSAS, <i>Measurement</i>:</u></p> <p><u>(a) Measurement Models: are the approaches to the presentation of assets or liabilities.</u></p> <p><u>(b) Measurement Bases: provide the information that best meets the qualitative characteristics under the model selected.</u></p> <p><u>(c) Measurement Techniques: are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis.</u></p>	
	<p>BC7.53 <u>In identifying measurement models and measurement bases the IPSASB reaffirmed its view that there is not a single measurement basis that best meets the measurement objective and, consistent with this view, that there is not one model that best meets the measurement objective. Consequently, the IPSASB identified the historical cost model as one of the two models. and retained historical cost as a measurement basis for both assets and liabilities.</u></p>	
	<p>BC7.54 <u>The IPSASB considered whether to identify and discuss measurement techniques in the Framework. The IPSASB concluded that detailed guidance on measurement techniques is better consolidated at standards level, specifically the draft IPSAS, <i>Measurement</i>. In its discussion of the measurement hierarchy, the Framework explains that measurement techniques are needed in order to operationalize current value measurement bases without going into detail on specific techniques. The draft IPSAS, <i>Measurement</i>, discusses measurement</u></p>	

	<p><u>techniques in more detail and provides draft application guidance.</u></p>	
	<p><u>Entry and Exit Values and Observability in a Market</u></p> <p>BC7.55 <u>The 2014-version of the Conceptual Framework classified measurement bases as:</u></p> <p><u>(a) Entity-or non-entity specific,</u></p> <p><u>(b) Whether they are observable or non-observable in a market, and</u></p> <p><u>(c) Whether they provide entry or exit values.</u></p>	
	<p>BC7.56 <u>The IPSASB considered that the distinction between entity and non-entity specific measures and the relationship with the measurement objective and qualitative characteristics is robust as it impacts the selection of a measurement basis and, in particular whether measurement bases reflect the expectations of market participants.</u></p>	
	<p>BC7.57 <u>The IPSASB decided that the characteristic of observability in a market is relevant to selection of a measurement technique once a measurement basis has been selected, rather than directly to the measurement basis. Consistent with the conclusion in paragraph BC7.8A that detailed guidance on measurement techniques is better consolidated at standards level, the IPSASB decided not to retain a discussion of observability in a market in the Framework, but to refer to the 'availability of observable data' as a factor in selection of a measurement technique.</u></p>	
	<p>BC7.58 <u>Entry values reflect the cost of acquisition, while exit values reflect the amount that an entity derives from use of the asset and its disposal. For liabilities entry values reflect the amount at which a liability is incurred and exit values reflect the amount to settle a liability. In rarer cases entry values reflect the amount at which a liability is assumed and exit values the amount to release and entity from an obligation. The IPSASB is of the view that the key factor in selection of a measurement basis is the measurement objective, in particular whether an asset is held for its operational or financial capacity and the characteristics of a liability. IPSASB concluded that the distinction between entry and exit values is useful in deciding whether a measure includes transaction costs,</u></p>	

	<p><u>and, if so, whether on acquisition/incurred or disposal/settlement.</u></p>	
	<p><u>Measurement Bases Not in Conceptual Framework but included in the Revised Framework</u></p>	
	<p>BC7.59 <u>Fair value and current cost are measurement bases that were not included in the Conceptual Framework approved in 2014 but have been included in the revised chapter.</u></p>	
	<p><u>Fair value</u></p>	
	<p>BC7.60 <u>Shortly before the IPSASB's Framework was finalized the IASB approved IFRS 13, <i>Fair Value Measurement</i>. IFRS 13 adopted an explicitly exit-based definition of fair value. This differed from the definition of fair value in IPSASB's literature, which was aligned with the pre-IFRS 13 definition of fair value. The IPSASB decided to rename its fair value definition as 'market value'. This avoided two global standard setters using the same term differently. Unlike the revised IASB definition of fair value, market value could be appropriate for non-specialized physical assets held for operational capacity as well as assets held for financial capacity. Since 2014 the IPSASB's standards-level work, especially that on financial instruments, has led the IPSASB to conclude that a current value measurement basis embodying financial capacity is necessary. This view was reflected in IPSAS 41, <i>Financial Instruments</i>, and in the illustrative exposure draft in Consultation Paper, <i>Measurement</i>. The revised measurement chapter therefore includes fair value, which is defined as:</u></p> <p><u><i>The price that would be paid to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.</i></u></p>	
	<p>BC7.61 <u>In addition to market value the 2014 Framework included replacement cost as a current value measurement basis. The IPSASB noted that the IASB's 2018 Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB took the view that current cost works in a public sector for both non-specialized and specialized assets held for operational capacity as, for non-specialized assets, it can be supported by market-based techniques with similarities to market value and specialized assets where current cost needs to reflect the service potential attributable to an</u></p>	

	<p><u>asset. The revised Framework therefore includes current cost as a measurement basis for assets.</u></p>	
	<p>BC7.62 <u>The IPSASB considered whether to include current cost for liabilities. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that current cost for liabilities might provide useful information for managerial purposes but considered that the practical application of such a measurement basis is very limited. The IPSASB therefore concluded that current cost for liabilities should not be included in the Framework.</u></p>	
	<p><u>Measurement Bases in original Conceptual Framework not included in the Revised Framework</u></p> <p>BC7.63 <u>The following measurement bases were included in the 2014 Framework, but have not been included in the revised Framework:</u></p> <ul style="list-style-type: none"> • <u>Market value</u> • <u>Replacement cost</u> • <u>Net selling price</u> • <u>Assumption price</u> • <u>Cost of release</u> 	
	<p><u>Market Value</u></p> <p>BC7.64 <u>In light of the decision to include fair value and current cost the IPSASB considered whether it was necessary to retain market value as a measurement basis. The IPSASB considers that fair value is the current value measurement basis that best meets the measurement objective where assets are held for financial capacity and for liabilities settled in an orderly transaction to a third party under current market conditions. Current cost is the current value measurement basis that best meets the measurement objective where assets are held for operational capacity, because it does not include a 'highest and best use' assumption and, as an entity-specific measurement basis, does not reflect the expectations of market participants. The IPSASB therefore concluded that it was not necessary to retain market value. Market-based techniques are likely to be</u></p>	

	<u>used to operationalize the fair value and current cost measurement bases.</u>	
	<u><i>Replacement cost</i></u>	
BC7.65	<u>Replacement cost was defined in the 2014 Framework as:</u> <u><i>The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting period).</i></u>	
BC7.66	<u>In light of the decision to include current cost as the most appropriate measurement basis for operational assets IPSASB considered whether it was necessary to retain replacement cost as a measurement basis. The IPSASB considers that the rationale for including replacement cost as a measurement basis in the 2014 version of the Framework is robust, in particular that an appropriate measurement basis for specialized assets should provide information on the cost of service potential that is attributable to the asset. Current cost is a more versatile measurement basis as it can be applied to both non-specialized and specialized assets, Measurement techniques can be selected appropriate to the nature of the asset. A measurement technique that reflects the amount required to replace the service potential provided by an asset can be used to ensure that the rationale for replacement cost can be sustained.</u>	
	<u><i>Net selling price</i></u>	
BC7.67	<u>Net selling price is an entity-specific measurement basis that was defined in the 2014 Framework as:</u> <u><i>The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.</i></u>	
BC7.68	<u>Net selling price is not currently used in IPSASB's literature. In its project on non-current assets and discontinued operations the IPSASB considered whether net selling price should be included as an alternative measure to fair value less costs to sell in determining recoverability for assets held for disposal where a disposal is on negotiated rather than market terms. The Board rejected inclusion of net selling price, largely on accountability grounds.</u>	
BC7.69	<u>Net realizable value is very similar to net selling price and is defined in IPSAS 12, <i>Inventories</i> and only used in that IPSAS:</u>	

	<u><i>The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.</i></u>	
BC7.70	<u>The IPSASB acknowledged that there is a case for an entity-specific, current value measurement basis for assets, as an alternative to fair value where there is not an open, active and orderly market, such as a distressed or negotiated sale. However, the IPSASB concluded that the limited circumstances under which such a measurement basis is used, and is likely to be used in the future, does not justify the inclusion of net selling price or net realizable value in the IPSASB Framework.</u>	
	<u><i>Assumption price</i></u>	
BC7.71	<u>Assumption price is:</u> <u><i>The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.</i></u>	
BC7.72	<u>Assumption price is an entity-specific measurement basis and is not currently used in the IPSASAB literature at standards level. It has some similarities to current cost for liabilities, but refers to a liability of a counterparty, rather than a liability of the reporting entity.</u>	
BC7.73	<u>The IPSASB considered the case for retention of assumption price. Some consider that it is appropriate when the government is taking on liabilities at concessionary rates, for example guarantees to banks to facilitate lending to businesses adversely affected by economic crises, and for measuring reinsurance liabilities. This case was reflected in paragraph BC7.42 of the 2014 Framework. The inclusion of assumption price (along with cost of release) was on the grounds that there may be limited circumstances where it might meet the measurement objective.</u>	
BC7.74	<u>The number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit, potentially material. In such cases fair value is likely to be a more appropriate measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.</u>	
	<u><i>Cost of release</i></u>	
BC7.75	<u>Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that</u>	

	<u>either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor.</u>	
	BC7.76 <u>Cost of release is entity-specific and does not assume an open, active and orderly market. At standards level the measurement requirements and guidance in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, include a grey letter reference to 'transfer(ing) an obligation at the reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. The reference in IPSAS 19.45 is consistent with cost of release.</u>	
	BC7.77 <u>The IPSASB noted that the IASB had concluded that it was unnecessary to include cost of release in its 2018 <i>Conceptual Framework</i>, because it is relatively unusual for entities to obtain release from liabilities, instead of fulfilling them. The IPSASB was also aware that the IASB had initiated a targeted project in 2020 to consider amendments to IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i> in three areas. One of these potential amendments is to align the liability definition and requirements for identifying liabilities in IAS 37 with the IASB's <i>Conceptual Framework</i>. One aspect of such an alignment would be to delete the reference to the transfer of an obligation.</u>	
	BC7.78 <u>In 2014 Framework justified the inclusion of cost of release (along with assumption price) on the grounds that there may be limited circumstances where it might meet the measurement objective. The IPSASB concluded that standards development since 2014 has not identified sufficient examples of circumstances where cost of release is appropriate to justify retention.</u>	
	<u>Renaming of cost of fulfilment as cost of settlement</u>	
	BC7.79 <u>In its 2018 Framework the IASB included fulfilment value defined as:</u> <u>The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.</u>	
	BC7.80 <u>In light of this development the IPSASB considered whether to (a) adopt the term 'fulfilment value' rather than cost of fulfilment while retaining the original definition of</u>	

	<u>cost of fulfilment (b) adopt the term 'fulfilment value' and the definition in the IASB Framework; or (c) another approach.</u>	
BC7.81	<u>A number of respondents to the Consultation Paper, <i>Measurement</i>, highlighted that fulfilment value reflects a risk premium whereas cost of fulfilment is silent on risk premia. A risk premium, which is also known as a risk margin or risk adjustment is the price for bearing the uncertainty inherent in the cash flows. The IPSASB concluded that using the term 'fulfilment value' with a definition different to that of the IASB was inappropriate. The IPSASB also decided that the inclusion of a risk premium should be determined at standards level.</u>	
BC7.82	<u>The IPSASB concluded that the existing definition of cost of fulfilment should be retained. However, the term itself is very similar to fulfilment value. The IPSASB therefore adopted the term 'cost of settlement' and in the definition itself changed 'fulfilling' to 'settling'. The revised definition is therefore:</u> <u>The costs that the entity will incur in settling the obligations represented by the liability, assuming that it does so in the least costly manner.</u>	
	<u>Value in use as a measurement basis or measurement technique</u>	
BC7.83	<u>The IPSASB considered whether value in use (VIU) is a measurement basis, measurement technique, or neither, and whether this depends on the cash-generating or non-cash-generating nature of the asset.</u>	
BC7.84	<u>The IPSASB considered three options:</u> <u>(a) VIU is not a measurement basis for either cash-generating assets or non-cash-generating assets;</u> <u>(b) VIU is a measurement basis for cash-generating assets, but VIU is not a measurement basis for non-cash-generating assets; or</u> <u>(c) The current position in IPSASB Framework should be retained with the definition covering both cash-generating assets and non-cash-generating assets.</u>	
BC7.85	<u>VIU requires techniques in order to be operationalized — projecting cash flows and estimating the net amounts of disposal for cash-generating assets and for determining</u>	

	<u>the present value of service potential for non-cash-generating assets. The IPSASB took the view that this militates to VIU being a measurement basis.</u>	
	BC7.86 <u>The advantage of Option (b) is that it would be fully consistent with the IASB Framework and that global standard setters would be using the term in exactly the same way. The disadvantage of Option (b) is that it would remove non-cash-generating assets from the scope of a measurement basis that is a central aspect of assessing impairments. For most public sector entities for which the IPSASB is designing standards non-cash-generating assets are the majority of property, plant and equipment. Option (c) avoids this deficiency but does create standards-level challenges. Option (c) requires measurement techniques. These may be the income approach for cash-generating assets and cost approach for non-cash generating assets or variants of those approaches.</u>	
	BC7.87 <u>The IPSASB concluded that the existing definition of VIU in the IPSASB Framework is not flawed. However, the method of determining VIU in IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i>, is arguably inconsistent with the IPSASB Framework. This is because the definition of 'value in use of a non-cash-generating asset'⁹ does not include the proceeds of disposal of the asset at the end of its useful life.</u>	
	BC7.88 <u>On balance the IPSASB decided to retain the current definition of VIU, because the advantages of a measurement basis that includes service potential, and is therefore relevant to the majority of assets held by entities for which IPSASB is developing and maintaining standards, outweigh the practical challenges of operationalizing the measurement basis. It is possible that IPSAS 21 will need to be reopened in the future, because of the inconsistency between IPSAS 21 and the Framework.</u>	
	<u>Equitable Values and Synergistic Values</u>	
	BC7.89 <u>The IPSASB considers that the development of conceptual and standards-level work evaluates the requirements and guidance in International Valuation Standards (IVS) and Government Finance Statistics. The IPSASB evaluated two concepts in IVS as potential</u>	

⁹ Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

		<u>measurement bases in the IPSASB Framework — synergistic value and equitable value.</u>	
	BC7.90	<u>IVS defines equitable value as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.</u>	
	BC7.91	<u>IVS defines synergistic value as IVS as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.</u>	
	BC7.92	<u>Equitable value has similarities to net selling price and synergistic value relates to unit of account. The IPSASB has considered the retention of net selling price in the limited scope update of the Framework and plans work on unit of account in the second phase of the limited scope update. The IPSASB therefore concluded that including equitable value and synergistic value as measurement bases in the Framework is unnecessary.</u>	

Supporting Documents 2 – ED 77, *Measurement*

1. Guidance in [draft] IPSAS X, Measurement (ED 77) is based on the illustrative exposure draft included in the Measurement Consultation Paper Issued in April 2019. Text has been updated to reflect:
 - (a) IPSASB decisions made in June 2020; and
 - (b) IPSASB instructions made in June 2020.The text has also been updated to illustrate the recommendations proposed in Agenda Item 7.
2. Staff have not re-ordered the application guidance in order to provide the IPSASB with the cleanest version of the document possible. Staff will seek the IPSASB's input on ordering of the application guidance on October 27, 2020.
3. Key changes to the text are summarized as follows:
 - (a) Core Text (minor changes).**
 - (i) New / deleted measurement bases
 - (ii) Generic measurement techniques guidance
 - (b) Fair Value (minor changes).**
 - (i) Generic measurement technique guidance removed
 - (c) Cost of Settlement (minor changes).**
 - (i) Generic measurement technique guidance removed
 - (d) Historical Cost (significant amendments).**
 - (i) Amended to include initial and subsequent measurement guidance
 - (ii) Amended to include application to liabilities
 - (e) Replacement Cost. Deleted.**
 - (f) Current Cost (new appendix).**
 - (g) Value in Use (new appendix).**
4. Given this is the first draft the IPSASB has reviewed, staff are of the view the highest and best use of a reviewer's time is to focus on structure and concepts. This will best align with the agenda item discussions members will have in September. Staff plan further reviews prior to the IPSASB review of the October 27, 2020 version of the EDs to enhance the consistency within and between the EDs. If members do perform a review beyond structure and concepts, comments are asked to be provided out of session.

REVIEW INSTRUCTIONS:

IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 77:

- (c) Authoritative Text (Core Text, Application Guidance and Amendments to Other IPSAS):

- (i) A significant portion of ED 77 is imported from the Illustrative ED included with CP, *Measurement*.
- (ii) Changes made to the Illustrative ED are tracked and based on Board Decisions or Instructions to Staff provided in previous meetings.
 - a. Deleted Illustrative ED paragraphs are noted in the “Notes” column. Deleted paragraphs are not tracked to enhance readability.

These components are formatted as follows for easier reference:

Format	Format description
Text	Text imported from the Illustrative ED, is shaded grey
Track changes	Text changed resulting from Board Decisions , comments from respondents, staff recommendation from September 2020 or editorial updates is tracked

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph 1 is IED.1 Paragraph 1 is updated to reflect measurement objective changes in Agenda Item 7.2.21.	Objective 1. The objective of this Standard is to define measurement bases that assist in reflecting fairly the cost of services , operational capacity, and financial capacity of assets and liabilities <u>and contribute to determining the cost of services</u> and how to identify <u>approaches techniques</u> under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.	CP, Measurement
Paragraph 2 is IED.2	Scope 2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] IPSAS [X]. <u>Measurement (Illustrative ED)</u> in measuring items <u>assets and liabilities</u> .	CP, Measurement
Paragraph 3 is IED.3	<u>3.</u> Except as specified in paragraph 4, this IPSAS applies when another IPSAS requires or permits: a. One or more of the measurement bases defined herein or disclosures about one or more of these measurement bases; and b. Measurements that are based on one or more of the measurement bases (e.g., <u>market fair</u> value less costs to sell) or disclosures about those measurements.	CP, Measurement
Paragraph 4 is IED.4	<u>3.4.</u> [Include exceptions here, once identified.]	CP, Measurement
Paragraph 5 is IED.5	<u>4.5.</u> The measurement application guidance described in this IPSAS applies to both initial and subsequent measurement.	CP, Measurement
Paragraph 6 is IED.6	<u>5.6.</u> The following terms are used in this Standard with the meanings specified: Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.	
Current cost definition has been added (see Agenda Item 7.2.16)	<u>Current cost is the cost of an equivalent asset at the measurement date.</u>	IASB CF 6.21
	Cost approach is a <u>measurement valuation</u> technique that reflects the amount that would be required currently to replace the service <u>capacity</u> of an asset (often referred to as current replacement cost).	IFRS 13 Appendix A
	Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.	IFRS 13 Appendix A
	Exit price is the price received to sell an asset or paid to transfer a liability.	IFRS 13 Appendix A
	Expected cash flow is the probability-weighted average (i.e.,	IFRS 13 Appendix A

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	mean of the distribution) of possible future cash flows.	
	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	IFRS 13 Appendix A
	Fulfillment value Cost of settlement is the costs that the entity will incur in fulfilling settling the obligations represented by the liability, assuming that it does so in the least costly manner.	
	Highest and best use is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.	IFRS 13 Appendix A
	Historical cost for of an asset is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.	
	Historical cost for of a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.	
	Income approach is a valuation measurement technique that convert s future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.	Based on IFRS 13 Appendix A
	Inputs are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following: <ul style="list-style-type: none"> (a) The risk inherent in a particular valuation measurement technique used to measure fair valueestimate a measurement basis (such as a pricing model); and (b) The risk inherent in the inputs to the valuation measurement technique. Inputs may be observable or unobservable.	Based on IFRS 13 Appendix A
	Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	IFRS 13 Appendix A
	Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	IFRS 13 Appendix A
	Level 3 inputs are unobservable inputs for the asset or	IFRS 13 Appendix A

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	liability.	
	Market approach is a valuation-measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation.	IFRS 13 Appendix A
	Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: <ul style="list-style-type: none"> (a) They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, <i>Related Party Disclosures</i>, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so. 	IFRS 13 Appendix A
Definition is removed as MV is not a MB (see June Agenda Item 6.2.3)	Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.	
Definition is removed as MV is not a MB (see June Agenda Item 6.2.3)	Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.	
	Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.	
	Most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.	IFRS 13 Appendix A
	Non-performance risk is the risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.	IFRS 13 Appendix A
	Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that	IFRS 13 Appendix A

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	market participants would use when pricing the asset or liability.	
	Orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).	IFRS 13 Appendix A
	Principal market is the market with the greatest volume and level of activity for the asset or liability.	IFRS 13 Appendix A
Definition is removed as RC is not a MB (see June Agenda Item 6.2.5)	Replacement cost is the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.	
	Risk premium is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.	IFRS 13 Appendix A
	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.	Developed for CP
	Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.	IFRS 13 Appendix A
	Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.	IFRS 13 Appendix A
	Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.	IFRS 13 Appendix A
VIU definition has been added (see Agenda Item 7.2.17)	Value in use is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.	IPSASB Conceptual Framework 7.58
	Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the <i>Glossary of Defined Terms</i> published separately.	
	Measurement	
	Measurement Models	
Paragraph 7 is	7. Elements recognized in financial statements are quantified in	Based on

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
added to provide an overview of measurement bases	historical terms or current terms. This requires the selection of a historical or current value measurement model. Selecting the measurement model considers the characteristics of the item, the measurement objective and the monetary information being presented.	IASB's Conceptual Framework paragraphs 6.1
	Measurement Bases	
Paragraph 8 is added to provide an overview of measurement bases	8. A measurement basis provides the most relevant and faithfully representative information under the measurement model selected. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.	Based on IASB's Conceptual Framework paragraphs 6.1
<p>Paragraph 9 is IED.7</p> <p>The order has been updated to align with the measurement hierarchy in the CF.</p> <p>The order of the appendices and core text has not been updated to facilitate comparisons with the IED.</p> <p>Re-order will happen for October call.</p>	<p>Measurement</p> <p>6.9. When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below an entity shall apply the application guidance in the relevant appendix:</p> <p>a. Historical cost (Appendix C: Historical cost-application guidance);</p> <p>b. Current cost (Appendix E: Current cost – application guidance);</p> <p>a.c. Fair value (Appendix A: Fair value-application guidance);</p> <p>b. Fulfillment value Cost of Settlement (Appendix B: Fulfillment value-application guidance); and</p> <p>c.</p> <p>d. Replacement cost (Appendix D: Replacement cost – application guidance).</p> <p>d.e. Value in use (Appendix F: Value in use – application guidance);</p>	-
	Fair Value	
Paragraph 10 is IED.8	7.10. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. Unlike historical cost, t The current value of an asset or liability is not derived, even in part, from the transaction or event that gave rise to the asset or liability.	IASB's CF 6.10
Paragraph 11 is IED.9	8.11. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that a market participant would use when pricing the asset or liability if those market participants act in their economic best interest.	IASB's CF 6.13

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph 12 is IED.10	9.12. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.	IASB's CF 6.14
	Fulfillment Value <u>Cost of Settlement</u>	
Paragraph 13 is IED.11	10.13. <u>Fulfillment value</u> <u>Cost of settlement</u> is an exit, entity-specific cost that the entity will incur in <u>fulfilling-settling</u> the obligations represented by the liability, assuming that it does so in the least costly manner. <u>Fulfillment value</u> <u>Cost of settlement</u> is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it <u>fulfils-settle</u> a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability.	IASB's CF 6.17
Paragraph 14 is IED.12	14.14. <u>Fulfillment value</u> <u>Cost of settlement</u> cannot be observed directly and is determined using cash-flow-based measurement techniques. The <u>fulfillment value</u> <u>cost of settlement</u> reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.	Based IASB's CF 6.19 and 6.20
Paragraph 15 is IED.13	12.15. The <u>fulfillment value</u> <u>cost of settlement</u> reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.	IASB's CF 6.20
	<u>Historical cost</u>	
Paragraph 16 is IED.14	13.16. Historical cost is an entry, entity-specific value. (The term "historical cost" may also be referred to as the "cost model" or generically as "cost-based measures"). Historical cost measures provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.	IASB's CF 6.4 and IPSASB's CF 7.14
Paragraph 17 is IED.15 Section deleted as depreciation is not unique to HC.	14.17. <u>Subsequent to initial recognition, this cost may be allocated as an expense to reporting periods in the form of depreciation or amortization for certain assets, as the service potential or ability to generate economic benefits provided by such assets are consumed over their useful lives.</u> Following initial recognition, the measurement of an asset is not changed to reflect changes in prices or increases in the value of the asset.	IPSASB CF 7.14
Paragraph IED.16 is deleted as impairment is not unique to HC.	<u>Under the historical cost measurement basis the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset have diminished due to changes in economic or other conditions, as distinct to their</u>	IPSASB CF 7.15

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	consumption. This involves assessments of recoverability. Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements (excluding price increases for unimproved assets) or other events, such as the accrual of interest on a financial asset.	
Paragraph IED.17 is deleted as interest is not unique to HC.	When measuring liabilities under the historical cost model, initial measures may be adjusted to reflect factors such as the accrual of interest, the accretion of discount or amortization of a premium.	IPSASB CF 7.71
IED.18 is specific guidance and is moved to Historical Cost AG. See C18.	Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant—the amount of the future payment is discounted so that, at the time a liability is first recognized, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.	Paragraphs 19 and 20 are based on the IPSASB's Conceptual Framework paragraphs 7.71 and 7.72
IED.19 is specific guidance and is moved to Historical Cost AG. See C23.	One way to apply a historical cost measurement basis to a financial asset or financial liability is to measure them at amortized cost. The amortized cost of a financial asset or financial liability reflects estimates of future cash flows, discounted at a rate determined at initial recognition. For variable rate instruments, the discount rate is updated to reflect changes in the variable rate.	Paragraph 21 is based on the IASB's Conceptual Framework paragraph 6.9
	<u>Replacement cost</u>	
IED.20 is removed as RC is not a MB (see June Agenda Item 6.2.5)	Replacement cost is the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date. The replacement cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date, plus the costs that would be incurred at that date.	Paragraphs 0, 23 and 25 are based on the IASB's Conceptual Framework paragraphs 6.21 and 6.22
IED.21 is removed as RC is not a MB (see June Agenda Item 6.2.5)	Replacement cost, like historical cost, is an entry value. It reflects prices in the market in which the entity would acquire the asset. However, unlike historical cost, replacement cost reflects conditions at the measurement date.	Paragraphs 0, 23 and 25 are based on the IASB's Conceptual Framework paragraphs 6.21 and 6.22
IED.22 s removed as RC is not a MB (see June Agenda Item 6.2.5)	Replacement cost differs from fair value because it: Is explicitly an entry value that reflects the cost of replacing the service potential of an asset; Includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and Is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market (e.g., the replacement cost of a vehicle is less for an entity that	IPSASB's CF 7.38

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually.)	
<i>IED.23 s removed as RC is not a MB (see June Agenda Item 6.2.5)</i>	In some cases, replacement cost cannot be determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available for a new asset, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.	-
	<u>Current Cost</u>	
<i>Paragraph 18 has been added to include CC as a measurement basis (see Agenda Item 7.2.16)</i>	<u>18. Current cost is an entry, entity-specific measurement that reflects prices in the market in which the entity would acquire the asset or would incur the liability. It provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Current cost therefore reflects changes in the values of assets and liabilities since the previous measurement date. Similar to fair value, value in use and cost of settlement, current cost of an asset or liability is not derived, even in part, from the transaction or event that gave rise to the asset or liability.</u>	<i>Based on FV para. 10 for consistency (CC is entity specific / FV is from market participants perspective)</i>
<i>Paragraph 19 has been added to include CC as a measurement basis (see Agenda Item 7.2.16)</i>	<u>19. Current cost reflects the perspective of the entity measuring the asset or liability. In practice, these entity specific assumptions may sometimes approximate assumptions made by market participants in measuring the item.</u>	<i>Based on FV para. 11 for consistency (CC is entity specific / FV is from market participants perspective)</i>
<i>Paragraph 20 has been added to include CC as a measurement basis (see Agenda Item 7.2.16)</i>	<u>20. In some cases, current cost can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques. For example, if prices are available for a new asset, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.</u>	<i>Based on FV para. 12 for consistency (CC is entity specific / FV is from market participants perspective)</i>
<i>Paragraph 21 has been added to include CC as a measurement basis (see Agenda Item 7.2.16)</i>	<u>21. Current cost differs from fair value because it:</u> <u>a. Is explicitly an entry value that reflects the cost of replacing the service potential of an asset;</u> <u>b. Includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and</u> <u>c. Is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market (e.g., the current cost of a vehicle is less for an entity that usually acquires a large number of vehicles</u>	<i>IPSASB CF 7.28 (IED.22)</i>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<u>in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually.)</u>	
	<u>Value in use</u>	
Paragraph 22 has been added to include VIU as a measurement basis (see Agenda Item 7.2.17)	<u>22. Value in use is an entity-specific exit value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. Value in use is the present value of the cash flows, or other economic resources, that the entity expects to derive from the use and its ultimate disposal.</u>	IASB's CF 6.17 And IPSASB's CF 7.59
Paragraph 23 has been added to include VIU as a measurement basis (see Agenda Item 7.2.17)	<u>45-23. Value in use cannot be observed directly and is determined using cash-flow-based measurement techniques. Value in use reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.</u>	Based on the IASB's CF paragraph 6.19 and 6.20
Paragraph 24 has been added to include VIU as a measurement basis (see Agenda Item 7.2.17)	<u>46-24. Value in use reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.</u>	Based on the IASB's CF paragraph 6.20
	<u>Measurement Techniques</u>	
Paragraph 25 is IED.A30. Moved to address structure (see Agenda Item 7.2.14)	<u>47-25. An entity shall use valuation-measurement techniques that are appropriate in the circumstances and for which sufficient data are available to <u>estimate the measurement basis. measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</u></u>	IFRS 13.61
Paragraph 26 has been added to provide an overview of measurement techniques	<u>26. The measurement basis amount cannot usually be observed directly. In such cases, a measurement technique is applied to estimate the amount at which an asset or liability is presented under the selected measurement basis. Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 10-12.</u>	Based on IASB CF 6.91
Paragraph 27 is IED.A31. Moved to address structure (see Agenda Item 7.2.14)	<u>27. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.</u> Three widely used valuation-measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 32 – 35. An entity shall use valuation-measurement techniques consistent with one or more of those approaches to measure fair value <u>estimate</u>	IFRS 13.62

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<p>Paragraph 28 is IED.A32. Moved to address structure (see Agenda Item 7.2.14)</p>	<p>the measurement basis.</p> <p>28. In some cases a single valuation-measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation-measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple valuation-measurement techniques are used to measure fair valueestimate a measurement basis, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.</p>	<p>IFRS 13.63</p>
<p>Paragraph 29 is IED.A33. Moved to address structure (see Agenda Item 7.2.14)</p>	<p>29. If the transaction price is fair-a current value measurement at initial recognition and a valuation-measurement technique that uses unobservable inputs will be used to measure fair valueestimate the measurement basis in subsequent periods, the measurementvaluation technique shall be calibrated so that at initial recognition the result of the measurementvaluation technique equals the transaction price. Calibration ensures that the measurement valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the measurementvaluation technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurementvaluation technique). After initial recognition, when measuring fair-a current value using a measurementvaluation technique or techniques that use unobservable inputs, an entity shall ensure that those measurement valuation-techniques reflect-maximize the use observable market data, where appropriate, (e.g., the price for a similar asset or liability) at the measurement date.</p>	<p>IFRS 13.64</p>
<p>Paragraph 30 is IED.A34. Moved to address structure (see Agenda Item 7.2.14)</p>	<p>18-30. MeasurementValuation techniques used to measure fair valueestimate the measurement basis shall be applied consistently. However, a change in a measurementvaluation technique or its application (e.g., a change in its weighting when multiple measurementvaluation techniques are used or a change in an adjustment applied to a measurementvaluation technique) is appropriate if the change results in a measurement that is equally or more representative of fair valuethe measurement basis in the circumstances. That might be the case if, for example, any of the following events take place:</p> <ul style="list-style-type: none"> a. New markets develop; b. New information becomes available; c. Information previously used is no longer available; 	<p>IFRS 13.65</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>d. MeasurementValuation techniques improve; or</p> <p>e. Market conditions change.</p>	
Paragraph 31 is IED.A35. Moved to address structure (see Agenda Item 7.2.14)	<p>31. Revisions resulting from a change in the measurementvaluation technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. However, the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurementvaluation technique or its application.</p>	IFRS 13.66
	Market Approach	
Paragraph 32 is IED.A36. Moved to address structure (see Agenda Item 7.2.14)	<p>32. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation.</p>	IFRS 13.B5
	Cost Approach	
Paragraph 33 is IED.A39 and IED.A40. Moved to address structure (see Agenda Item 7.2.14) Amendments to definition made to make generic (see Agenda Item 7.2.10)	<p>19-33. The cost approach reflects the amount that would be required currently to replace the service provided by capacity of an asset (often referred to as current replacement cost) through the acquisition or construction of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.</p>	Paragraphs 33 is IFRS 13.B8 and B9
Paragraph 34 is IED.D30. Moved to address structure (see Agenda Item 7.2.14)	<p>34. Replacement cost is sometimes described as depreciated (or optimized depreciated) replacement cost. This valuation method measures value byA substitute asset of comparable utility is calculatingcalculated as the current replacementcost of a modern equivalent asset—that is, a notional asset providing an equivalent service potentialas the existing asset while using the latest technology available—and then making deductions (the ‘depreciation’ of depreciated replacement cost) for the following forms of obsolescence and optimization.</p>	-
	Income Approach	
Paragraph 35 is IED.A41. Moved to address structure (see Agenda Item 7.2.14)	<p>20-35. The income approach converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the fair value measurementestimate of the measurement basis reflects current marketexpectations about those future amounts.</p>	IFRS 13.B10
	Transaction Costs	
Paragraph 36 is IED.24	<p>24-36. Transaction costs are costs that would not have been incurred if the entity had not acquired, issued or disposed of</p>	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	the asset or liability.	
Paragraph 37 is IED.25	22-37. Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs as they are not a direct result of the transaction.	CP, Measurement
Paragraph 38 is IED.26	23-38. Costs attributable to the acquisition of an asset relate specifically to costs of ownership transfer. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer, (e.g., borrowing costs), are excluded from the definition of transaction costs.	CP, Measurement
Paragraph 39 is IED.27	24-39. Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether an entity is presenting an entry-based entry-based measurement basis or an exit-based exit-based measurement basis impacts whether those transaction costs are included or excluded from measurement.	CP, Measurement
Paragraph 40 is IED.28	25-40. Transaction costs can arise both , when an asset is acquired or a liability is incurred, and when an asset is sold or disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring an asset or incurring a liability are a feature of the transaction in which the asset was acquired or the liability was incurred, such transaction costs incurred in entering into a transaction are included in entry-based measurements bases. Transaction costs that would be incurred in selling or disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction costs that would be incurred in exiting a transaction are included in exit-based measurement bases when the measurement base is entity-specific.	CP, Measurement
	Effective Date	
Paragraph 41 is added	26-41. <u>An entity shall apply this Standard for annual periods beginning on or after [mm, dd, yyyy]. Earlier application is permitted. If an entity elects to apply this Standard early, it must disclose that fact and apply all the requirements in this Standard at the same time. It shall also, at the same time, apply the amendments in [Appendix [X]: Amendments to Other IPSAS].</u> [Include effective date, once identified.]	-
Paragraph 42 is added	<u>42. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, <i>First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)</i> for</u>	-

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Appendix A: Fair value—application guidance <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
<p>Paragraph A1 is IED.A1</p>	<p>Measurement</p> <p>A1. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:</p> <ul style="list-style-type: none"> (a) The particular asset or liability that is the subject of the measurement (consistently with its unit of account). (b) For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use). (c) The principal (or most advantageous) market for the asset or liability. (d) The measurement valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized. 	<p>IFRS 13.B2</p>
<p>Paragraph A2 is IED.A2</p>	<p>The Asset or Liability</p> <p>A2. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:</p> <ul style="list-style-type: none"> a. The condition and location of the asset; and b. Restrictions, if any, on the sale or use of the asset. 	<p>IFRS 13.11</p>
<p>Paragraph A3 is IED.A3</p>	<p>A3. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants.</p>	<p>IFRS 13.12</p>
<p>Paragraph A4 is IED.A4</p>	<p>A4. The asset or liability measured at fair value might be either of the following:</p> <ul style="list-style-type: none"> a. A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or b. A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an 	<p>IFRS 13.13</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	operation).	
Paragraph A5 is IED.A2	A5. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its <i>unit of account</i> . The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the fair value measurement, except as provided in this Application Guidance.	IFRS 13.14
	The Transaction	
Paragraph A6 is IED.A6	A6. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.	IFRS 13.15
Paragraph A7 is IED.A7	A7. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: <ul style="list-style-type: none"> a. In the principal market for the asset or liability; or b. In the absence of a principal market, in the most advantageous market for the asset or liability. 	IFRS 13.16
Paragraph A8 is IED.A8	A8. An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.	IFRS 13.17
Paragraph A9 is IED.A9	A9. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement/valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.	IFRS 13.18
Paragraph A10 is IED.A10	A10. The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different	IFRS 13.19

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	activities.	
Paragraph A11 is IED.A11	A11. Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.	IFRS 13.20
Paragraph A12 is IED.A12	A12. Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.	IFRS 13.21
	Market Participants	
Paragraph A13 is IED.A13	A13. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.	IFRS 13.22
Paragraph A14 is IED.A14	A14. In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following: <ul style="list-style-type: none"> a. The asset or liability; b. The principal (or most advantageous) market for the asset or liability; and c. Market participants with whom the entity would enter into a transaction in that market. 	IFRS 13.23
	The Price	
Paragraph A15 is IED.A15	A15. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurementvaluation technique.	IFRS 13.24
Paragraph A16 is IED.A16	A16. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for <i>transaction costs</i> . Transaction costs shall be accounted for in accordance with other IPSASs. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.	IFRS 13.25

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph A17 is IED.A17	A17. Transaction costs do not include <i>transport costs</i> . If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.	IFRS 13.26
	Application to non-financial assets	
	Highest and best use for non-financial assets	
Paragraph A18 is IED.A18	A18. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its <i>highest and best use</i> or by selling it to another market participant that would use the asset in its highest and best use.	IFRS 13.27
Paragraph A19 is IED.A19	A19. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows: <ul style="list-style-type: none"> a. A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property). b. A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property). c. A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use. 	IFRS 13.28
Paragraph A20 is IED.A20	A20. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.	IFRS 13.29 and IFRS 13.30
Paragraph A21 is IED.A21	A21. To protect the public interest, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset, such as a drug patent, that the entity plans to use to manufacture vaccines for its citizens.	-

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.	
Paragraph A22 is IED.A22	<p data-bbox="437 409 932 439">Valuation premise for non-financial assets</p> <p data-bbox="437 461 1235 566">A22. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:</p> <p data-bbox="533 589 1251 806">(a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation).</p> <p data-bbox="580 828 1251 1193">(i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants.</p> <p data-bbox="580 1216 1251 1395">(ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.</p> <p data-bbox="580 1417 1251 1597">(iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.</p> <p data-bbox="533 1619 1251 1912">(b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.</p>	IFRS 13.31
Paragraph A23 is IED.A23	A23. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IPSAS (which may be an individual asset).	IFRS 13.32

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.</p>	
<p>Paragraph A24 is IED.A24</p>	<p>A24. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For example:</p> <p>(a) The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).</p> <p>(b) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).</p> <p>(c) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods.</p> <p>(d) An asset's use in combination with other assets or with other</p>	<p>IFRS 13.B3</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>assets and liabilities might be incorporated into the measurementvaluation technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurementvaluation technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.</p> <p>(e) In more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).</p>	
	Fair Value at Initial Recognition	
Paragraph A25 is IED.A25	A25. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an <i>entry price</i>). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.	IFRS 13.57
Paragraph A26 is IED.A26	A26. In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).	IFRS 13.58
Paragraph A27 is IED.A27	A27. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph A29 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.	IFRS 13.59
Paragraph A28 is IED.A28	A28. If another IPSAS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.	IFRS 13.60
Paragraph A29 is IED.A29 Paragraph A29e has been added to include	A29. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability.	IFRS 13.B4

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<i>public sector specific circumstances (see agenda item 7.2.27)</i>	<p>For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:</p> <ul style="list-style-type: none"> a. The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms. b. The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty. c. The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IPSAS, or the transaction price includes transaction costs. d. The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market. d-e. <u>The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).</u> 	
	Valuation Techniques	
<i>Paragraph A30 is added to emphasize selection of valuation technique.</i>	A30. <u>In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.</u>	<i>Based on IASB Conceptual Framework 6.14</i>
<i>Paragraph A31 is IED.A30</i>	A31. An entity shall use <u>measurementvaluation</u> techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.	<i>IFRS 13.61</i>
<i>Paragraph A32 is IED.A31</i>	A32. The objective of using a <u>measurementvaluation</u> technique is to estimate the price at which an orderly transaction to sell the	<i>IFRS 13.62</i>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used measurement/valuation techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs A34A41–A45A42. An entity shall use measurement/valuation techniques consistent with one or more of those approaches to measure fair value.</p>	
<p>Paragraph A33 is IED.A32 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)</p>	<p>A33. In some cases a single valuation technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement/valuation techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.</p>	<p>IFRS 13.63</p>
<p>Paragraph IED.A33 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)</p>	<p>If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (e.g., the price for a similar asset or liability) at the measurement date.</p>	<p>IFRS 13.64</p>
<p>Paragraph IED.A34 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)</p>	<p>Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application (e.g., a change in its weighting when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:</p> <p>New markets develop;</p> <p>New information becomes available;</p> <p>Information previously used is no longer available;</p>	<p>IFRS 13.65</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Valuation techniques improve; or Market conditions change.	
Paragraph IED.A35 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)	Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. However, the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.	IFRS 13.66
	Market Approach	
Paragraph IED.A36 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)	The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation.	IFRS 13.B5
Paragraph A34 is IED.A37	A34. For example, v <u>Measurement</u> valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.	IFRS 13.B6
Paragraph A35 is IED.A38	A35. <u>Measurement</u> Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.	IFRS 13.B7
	Cost Approach	
Paragraph IED.A39 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)	The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).	IFRS 13.B8
Paragraph A36 added to reflect application of measurement techniques to bases (see Agenda Item 7.2.14)	A36. <u>Applying the cost approach to estimate fair value shall take into account the attributes of the fair value measurement basis. While the cost approach reflects the amount required to replace the service of an asset, when estimating fair value, this is performed in the context of an exit value.</u>	
	Market Participant	
Paragraph A37 is IED.A40	A37. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute	IFRS 13.B9

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.</p>	
<p>Paragraph A38 is based IED.D30 to include concept of modern equivalent asset in cost approach for fair value measurement.</p>	<p>A38. The cost approach estimates the fair value by calculating the current replacement cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset while using the latest technology available—and then making deductions (the ‘depreciation’ of depreciated replacement cost) for the following forms of obsolescence and optimization. That is because a market participant buyer would not pay more to replace the service capacity of the existing asset than the amount required to acquire its modern equivalent.</p>	-
	<p>Replace the Service of the Asset</p>	
<p>Paragraph A39 added to reflect application of measurement techniques to bases (see Agenda Item 7.2.14)</p>	<p>A39. From the perspective of a market participant, the service of the asset is based on the service capacity of the asset. That is because from a market participant buyer acquires the asset for the volume of service the asset can handle while maintaining standards of quality and performance.</p>	-
<p>Paragraph A40 added to reflect application of measurement techniques to bases (see Agenda Item 7.2.14)</p>	<p>A40. An entity only considers a service amount other than the service capacity of the asset when the service is limited by factors, or restrictions, external to the asset. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes in the communities, the demand is limited to 100 pupils, the fair value of the school is that of a school for 100 pupils. However, if a market participant is reasonable able to operate the school with 500 students, the service capacity applied in the valuation.</p>	-
	<p>Highest and Best Use</p>	
<p>Paragraph A41 added to reflect application of measurement techniques to bases (see Agenda Item 7.2.14)</p>	<p>A41. The entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants. For a public sector entity, the asset may be used to satisfy a public service objective and not used to generate economic benefits by using the asset in its highest and best use.</p>	-
<p>Paragraph A42 added to reflect application of</p>	<p>A42. When estimating the fair value of an asset, using the cost</p>	-

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
measurement techniques to bases (see Agenda Item 7.2.14)	<p><u>approach, the entity shall consider different use by market participants would maximize the value of the asset. This takes into account the use of the asset that is physically possible, legally permissible and financially feasible. For example, an entity in the process of disposing a community center considers the amount required to replace the service of an asset in the context that the market participant buyer will use the asset. If the community centre can feasibly be used as commercial space, this is taken to account when determining its highest and best use.</u></p>	
Paragraph IED.A41 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)	<p>Income Approach</p> <p><u>The income approach converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.</u></p>	IFRS 13.B10
Paragraph A43 added to reflect application of measurement techniques to bases (see Agenda Item 7.2.14)	<p><u>A43. Applying the income approach to estimate fair value shall take into account the attributes of the fair value measurement basis. This includes:</u></p> <ul style="list-style-type: none"> <u>a. Estimates of future cash flows.</u> <u>b. Possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured, caused by the uncertainty inherent in the cash flows.</u> <u>c. The time value of money.</u> <u>d. The price for bearing the uncertainty inherent in the cash flows (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (and generally require more for taking on a liability) that has uncertain cash flows than for an asset (or liability) whose cash flows are certain.</u> <u>e. Other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.</u> 	IASB CF 6.14
Paragraph A44 is IED.A42	<p><u>A38-A44. When estimating fair value, the income approach can be applied using several methods. Those valuation techniques methods include, for example, the following:</u></p> <ul style="list-style-type: none"> <u>a. Present value techniques (see paragraph A45);</u> <u>b. Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and</u> 	IFRS 13. B11

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>reflect both the time value and the intrinsic value of an option; and</p> <p>c. The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.</p>	
<p>Paragraph IED.A43 is generic guidance and has moved to the core text (see Agenda Item 7.2.14)</p>	<p>A39-A45. Paragraphs IG1A44–IG18A61 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.</p>	<p>IFRS 13.B1 2</p>
<p>Paragraph IED.A44 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>The Components of a Present Value Measurement</p> <p>Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:</p> <p>An estimate of future cash flows for the asset or liability being measured.</p> <p>Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.</p> <p>The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).</p> <p>The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium).</p> <p>Other factors that market participants would take into account in the circumstances.</p> <p>For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.</p>	<p>IFRS 13. B13</p>
<p>Paragraph IED.A45 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>General Principles</p> <p>Present value techniques differ in how they capture the elements in paragraph A44. However, all the following general principles govern the application of any present value technique used to measure fair</p>	<p>IFRS 13.B1 4</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>value:</p> <p>Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.</p> <p>Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.</p> <p>To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.</p> <p>Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.</p> <p>Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.</p>	
<p><i>Paragraph IED.A46 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</i></p>	<p><i>Risk and Uncertainty</i></p> <p>A fair value measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.</p>	<p><i>IFRS 13.B1 5</i></p>
<p><i>Paragraph A46 is IED.A47</i></p>	<p><i>A40-A46.</i> Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.</p>	<p><i>IFRS 13.B1 6</i></p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph IED.A48 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)	<p>A41. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:</p> <p>(a) The discount rate adjustment technique (see paragraphs A49–A53) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.</p> <p>(b) Method 1 of the expected present value technique (see paragraph A56) uses risk-adjusted expected cash flows and a risk-free rate.</p> <p>(c) Method 2 of the expected present value technique (see paragraph A57) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.</p>	IFRS-13.B17
Paragraph IED.A49 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)	<p>Discount Rate Adjustment Technique</p> <p>The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).</p>	IFRS-13.B18
Paragraph IED.A50 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)	<p>The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a 'build-up' approach).</p>	IFRS-13.B19
Paragraph IED.A51 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)	<p>A42. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable</p>	IFRS-13.B20

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>assets:</p> <p>(a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent [(CU1,200/CU1,083) – 1].</p> <p>(b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent [(CU700/CU566)^{0.5} – 1].</p> <p>(c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).</p>	
<p><i>Paragraph IED.A52 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</i></p>	<p>On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the fair value of Asset A is CU722 (CU800/1.108).</p> <p>Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.</p>	<p><i>IFRS 13.B2 4</i></p>
<p><i>Paragraph IED.A53 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</i></p>	<p>When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.</p>	<p><i>IFRS 13.B22</i></p>
<p><i>Paragraph IED.A54 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</i></p>	<p><i>Expected Present Value Technique</i></p> <p>The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the</p>	<p><i>IFRS 13.B2 3</i></p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).</p>	
<p>Paragraph IED.A55 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>A43. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:</p> <p>(a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.</p> <p>(b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.</p> <p>Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)</p>	<p>IFRS 13.B2 4</p>
<p>Paragraph IED.A56 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.</p>	<p>IFRS 13.B2 5</p>
<p>Paragraph IED.A57 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the</p>	<p>IFRS 13.B2 6</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.</p>	
<p>Paragraph IED.A58 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>A44. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.</p>	<p>IFRS 13.B2 7</p>
<p>Paragraph IED.A59 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.</p>	<p>IFRS 13.B2 8</p>
<p>Paragraph IED.A60 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>A45. In theory, the present value (i.e., the fair value) of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:</p> <p>(a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent (CU780 — [CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of CU758 (CU780 — CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is CU722 (CU758/1.05).</p> <p>(b) Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the</p>	<p>IFRS 13.B2 9</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value (i.e., the fair value) of the asset is CU722 (CU780/1.08).</p>	
<p>Paragraph IED.A61 is generic guidance and has moved to IGs (see Agenda Item 7.2.14)</p>	<p>When using an expected present value technique to measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgements applied.</p>	<p>IFRS 13.B3 9</p>
	<p><u>Inputs to Measurement Techniques</u></p>	
	<p><u>General Principles</u></p>	
<p>Paragraph A47 is IED.A62</p>	<p>A46-A47. <u>Measurement</u> Valuation techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.</p>	<p>IFRS 13.67</p>
<p>Paragraph A48 is IED.A63</p>	<p>A47-A48. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets (see paragraph A49A64).</p>	<p>IFRS 13.68</p>
<p>Paragraph A49 is IED.A64</p>	<p>A48-A49. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following:</p> <ul style="list-style-type: none"> (a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange. (b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment). (c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not 	<p>IFRS 13.B3 4</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.</p> <p>(d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.</p>	
Paragraph A50 is IED.A65	<p><u>A49-A50.</u> An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs A2 and A3). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IPSAS that requires or permits the fair value measurement (see paragraphs A4 and A5). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph A59) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph A58.</p>	IFRS 13.69
Paragraph A51 is IED.A66	<p>Fair Value Hierarchy</p> <p><u>A50-A51.</u> To increase consistency and comparability in fair value measurements and related disclosures, this Application Guidance establishes a fair value hierarchy that categorizes into three levels (see paragraphs A55-A70–A82-A97) the inputs to measurement<u>valuation</u> techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to</p>	IFRS 13.72

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	unobservable inputs (Level 3 inputs).	
Paragraph A52 is IED.A67	<p>A51-A52. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.</p>	IFRS 13.73
Paragraph A53 is IED.A68	<p>A52-A53. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurementvaluation techniques (see paragraph A31A30). However, the fair value hierarchy prioritizes the inputs to measurementvaluation techniques, not the measurementvaluation techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.</p>	IFRS 13.74
Paragraph A54 is IED.A69	<p>A53-A54. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.</p>	IFRS 13.75
Paragraph A55 is IED.A70	<p>Level 1 Inputs</p> <p>A54-A55. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.</p>	IFRS 13.76
Paragraph A56 is IED.A71	<p>A55-A56. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever</p>	IFRS 13.77

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	available, except as specified in paragraph A58A73.	
Paragraph A57 is IED.A72	<p>A56-A57. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:</p> <ol style="list-style-type: none"> a. The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and b. Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date. 	IFRS 13.78
Paragraph A58 is IED.A73	<p>A57-A58. An entity shall not make an adjustment to a Level 1 input except in the following circumstances:</p> <ol style="list-style-type: none"> a. When an entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy. b. When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy. c. When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and 	IFRS 13.79

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	that price needs to be adjusted for factors specific to the item or the asset (see paragraph [to be developed] ¹ of IPSAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.	
Paragraph A59 is IED.A74	A58-A59. If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.	IFRS 13.80
	Level 2 Inputs	
Paragraph A60 is IED.A75	A59-A60. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	IFRS 13.81
Paragraph A61 is IED.A76	A60-A61. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following: <ul style="list-style-type: none"> a. Quoted prices for similar assets or liabilities in active markets. b. Quoted prices for identical or similar assets or liabilities in markets that are not active. c. inputs other than quoted prices that are observable for the asset or liability, for example: <ul style="list-style-type: none"> i. Interest rates and yield curves observable at commonly quoted intervals; ii. Implied volatilities; and iii. Credit spreads. d. Market-corroborated inputs. 	IFRS 13.82
Paragraph A62 is	A61-A62. Adjustments to Level 2 inputs will vary depending	IFRS 13.83

¹ Paragraph in IPSAS 41 will be developed as a consequential amendment during the Exposure Draft Phase of the project.

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
IED.A77	<p>on factors specific to the asset or liability. Those factors include the following:</p> <ol style="list-style-type: none"> The condition or location of the asset; The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph [to be developed]² of IPSAS 41; and The volume or level of activity in the markets within which the inputs are observed. 	
Paragraph A63 is IED.A78	<p>A62.<u>A63.</u> An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.</p>	IFRS 13.84
Paragraph A64 is IED.A79	<p>A63.<u>A64.</u> Paragraph A65A80 describes the use of Level 2 inputs for particular assets and liabilities.</p>	IFRS 13.85
Paragraph A65 is IED.A80	<p>A64.<u>A65.</u> Examples of Level 2 inputs for particular assets and liabilities include the following:</p> <ol style="list-style-type: none"> Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement. Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement. 	IFRS 13.B3 5

² Paragraph in IPSAS 41 will be developed as a consequential amendment during the Exposure Draft Phase of the project.

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>c. Building held and used. A Level 2 input would be the price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations.</p> <p>d. Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational, market, financial and non-financial factors.</p>	
Paragraph A66 is IED.A81	<p>Level 3 Inputs</p> <p>A65-A66. Level 3 inputs are unobservable inputs for the asset or liability.</p>	IFRS 13.86
Paragraph A67 is IED.A82	<p>A66-A67. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.</p>	IFRS 13.87
Paragraph A68 is IED.A83	<p>A67-A68. Assumptions about risk include the risk inherent in a particular measurementvaluation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurementvaluation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs A69–A79).</p>	IFRS 13.88
	<p><i>Measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased</i></p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph A69 is IED.A84	<p>A68-A69. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:</p> <ul style="list-style-type: none"> a. There are few recent transactions. b. Price quotations are not developed using current information. c. Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets). d. Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability. e. There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability. f. There is a wide bid-ask spread or significant increase in the bid-ask spread. g. There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities. h. Little information is publicly available (e.g., for transactions that take place in a principal-to-principal market). 	IFRS 13.B3 7
Paragraph A70 is IED.A85	<p>A69-A70. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the</p>	IFRS 13.B3 8

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).</p>	
<p>Paragraph A71 is IED.A86</p>	<p>A70-A71. This Application Guidance does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs A30A30–A33A35 and A34A36–A46A42 for a discussion of the use of measurementvaluation techniques when measuring fair value. Regardless of the measurementvaluation technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph A1). Otherwise, the measurement does not faithfully represent fair value. In some cases determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.</p>	<p>IFRS 13.B3 9</p>
<p>Paragraph A72 is IED.A87</p>	<p>A71-A72. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurementvaluation technique or the use of multiple measurementvaluation techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurementvaluation techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.</p>	<p>IFRS 13.B4 0</p>
<p>Paragraph A73 is IED.A88</p>	<p>A72-A73. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.</p>	<p>IFRS 13.B4 1</p>
<p>Paragraph A74 is IED.A89</p>	<p>A73-A74. Estimating the price at which market participants</p>	<p>IFRS 13.B4 2</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgement. An entity's intention to hold the asset or to settle or otherwise fulfil the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.</p>	
<p>Paragraph A75 is IED.A90</p>	<p><i>Identifying Transactions that are not Orderly</i></p> <p>A74-A75. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:</p> <ul style="list-style-type: none"> a. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions. b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant. c. The seller is in or near bankruptcy or receivership (i.e., the seller is distressed). d. The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced). e. The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability. <p>An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.</p>	<p>IFRS 13.B4 3</p>
<p>Paragraph A76 is IED.A91</p>	<p>A75-A76. An entity shall consider all the following when measuring fair value or estimating market risk premiums:</p> <ul style="list-style-type: none"> (a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price. 	<p>IFRS 13.B4 4</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>(b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:</p> <ul style="list-style-type: none"> (i) The volume of the transaction. (ii) The comparability of the transaction to the asset or liability being measured. (iii) The proximity of the transaction to the measurement date. <p>(c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.</p> <p>An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.</p>	
	<i>Using Quoted Prices Provided by Third Parties</i>	
Paragraph A77 is IED.A92	<p>A76-A77. This Application Guidance does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Application Guidance.</p>	IFRS 13.B4 5
Paragraph A78 is IED.A93	<p>A77-A78. If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a <u>measurement/valuation</u> technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the</p>	IFRS 13.B4 6

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	result of transactions.	
Paragraph A79 is IED.A94	A78-A79. Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.	IFRS 13.B4 7
Paragraph A80 is IED.A95	A79-A80. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g., an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.	IFRS 13.89
Paragraph A81 is IED.A96	A80-A81. Paragraph A82 describes the use of Level 3 inputs for particular assets and liabilities.	IFRS 13.90
Paragraph A82 is IED.A97	A81-A82. Examples of Level 3 inputs for particular assets and liabilities include the following: a. Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves. b. Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option. c. Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be	IFRS 13.B3 6

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	<p>corroborated by observable market data.</p> <p>d. Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfill the obligation (including market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.</p> <p>e. Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Appendix B: Fulfillment valueCost of Settlement—application guidance <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
<p>Paragraph B1 is IED.B1</p> <p>Paragraph B1(c) was deleted as it is included in (d) (see agenda item 7.2.28)</p>	<p>Measurement</p> <p>B1. The objective of fulfillment valuethe <u>cost of settlement</u> measurement is to estimate the value of a liability assuming the entity will <u>fulfill-settle</u> its obligation in the least costly manner. A fulfillment value<u>cost of settlement</u> measurement requires an entity to determine all the following:</p> <ul style="list-style-type: none"> a. The particular liability that is the subject of the measurement (consistently with its unit of account). b. The manner in which the liability will be settled. c. The liability's expected timing of settlement. d.c. The <u>measurement</u>valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the liability. 	<p>CP, Measurement</p>
<p>Paragraph B1 is IED.B2</p> <p>Paragraph B1(b) was deleted to remove the requirement to include a risk premium (see agenda item 7.2.3)</p>	<p>The Liability</p> <p>B2. A <u>cost of settlement</u> fulfillment value measurement is for a particular liability. Therefore, when measuring the <u>cost of settlement</u>fulfillment value, an entity takes into account characteristics of the particular liability relevant in determining the <u>cost of settlement</u> fulfillment value at the measurement date. Such characteristics include, for example, the following:</p> <p>B3. The entity's expectations about the amount and timing of the future outflow of resources; and</p> <p>B4.B2. The risk that the actual future outflow of resources may ultimately differ from those expected (i.e., a risk premium).</p>	<p>CP, Measurement</p>
<p>Paragraph B3 is IED.B3</p>	<p>B5-B3. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the specific entity.</p>	<p>CP, Measurement</p>
<p>Paragraph B4 is IED.B4</p>	<p>B6-B4. The liability measured at its <u>cost of settlement</u> fulfillment value might be either of the following:</p> <ul style="list-style-type: none"> a. A stand-alone liability (e.g., a legal claim against the entity); or b. A group of liabilities (e.g., decommissioning liabilities associated with a particular asset). 	<p>CP, Measurement</p>
<p>Paragraph B5 is IED.B5</p>	<p>B7-B5. Whether the liability is a stand-alone liability or a group <u>of</u> liabilities for recognition or disclosure purposes depends on</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	the liability's <u>its</u> unit of account. The unit of account for the liability shall be determined in accordance with the IPSAS that requires or permits the <u>cost of settlement fulfillment value</u> measurement, except as provided in this Application Guidance.	
Paragraph B6 is IED.B6	<p>The Least Costly Manner</p> <p>B8-B6. The <u>cost of settlement fulfillment value</u> measurement assumes that the liability is settled by the entity in the least costly manner.</p>	CP, Measurement
Paragraph B7 is IED.B7	<p>B9-B7. The fulfillment value <u>cost of settlement</u> represents the amount the entity is obligated to incur to settle the liability. This obligation represents the minimum amount an entity will incur assuming the entity completely satisfies its obligation. For example, an entity may have an obligation to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to <u>fulfill-settle</u> the minimum obligation of restoring the land to its original condition and therefore are not representative of the cost to <u>fulfill-settle</u> the liability. In cases where an entity intends to <u>fulfill-settle</u> the liability beyond its commitment, guidance in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, should be applied when accounting for amount in excess of the cost to <u>fulfill-settle</u>.</p>	CP, Measurement
Paragraph B8 is IED.B8	<p>B40-B8. The entity must have the ability to access the settlement method that results in the obligation being settled in the least costly manner at the expected settlement date. Because different entities (and operations within those entities) with different activities may have access to a variety of settlement methods, the least costly manner for the same liability might be different for different entities (and operations within those entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.</p>	CP, Measurement
Paragraph B9 is IED.B9	<p>B44-B9. An entity need not undertake an exhaustive search of all settlement methods to identify the least costly manner of settlement, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of settlement is presumed to be the manner in which the entity has currently selected to release itself from the obligation. For example, if an entity elects to <u>fulfill-settle</u> its decommissioning liability using its own employees, it is presumed this is the least costly manner of settlement, regardless of the entity's ability to contract the</p>	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	decommissioning to third parties.	
Paragraph B10 is IED.B10	B12.B10. Where fulfillment-settlement requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling-settling the obligation.	IPSASB CF 7.76
Paragraph B11 is IED.B11	B13.B11. Where fulfillment-settlement will be made by the entity itself, the fulfillment-settlement cost does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of settlement fulfillment value amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.	IPSASB CF 7.77
Paragraph B12 is IED.B12 Paragraph B12 was updated as public sector entities don't always act in their economic interest (see Agenda Item 7.2.28)	Entity-Specific Value B14.B12. The cost of settlement fulfillment value is an entity specific value. An entity shall measure the cost of settlement fulfillment value of a liability using the assumptions from the entity's perspective, assuming the entity acts in accordance with its own economic best interest public sector objective .	CP, Measurement
Paragraph B13 is IED.B13 Paragraph B13 (d) was updated to remove the requirement to include a risk premium (see Agenda Item 7.2.28)	B15.B13. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following: a. The liability; b. The entity's expectations about the amount and timing of future outflows of resources; and c. The time value of money; and The risk that the actual outflow of resources may ultimately differ from those expected (i.e., a risk premium).	CP, Measurement
Paragraph B14 is IED.B14 Paragraph B14 was updated to remove repetition with IED.B15 and to add clarity (see Agenda Item 7.2.28)	B16.B14. When measuring an entity specific value, the estimate estimating market based assumptions, such as of risk premium and the time value of money, should be market based. This does not require an entity to use the same assumptions as a market participant, however there may be little difference between the assumptions that a market participant would applied apply and those and entity uses itself. For example, when discounting future cash flows, a market based discount rate should be applied where appropriate.	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph 0 is IED.B15 Paragraph B14 was updated to remove repetition with IED.B15 and to add clarity (see Agenda Item 7.2.28)	Accordingly, the risk premium and time value of money in an entity specific measure of a liability should be the amount market participants would apply if their estimates of the amount and timing of the future outflow of resources were the same as the entity's estimates.	
	The Cost that the Entity Will Incur	
Paragraph B15 is IED.B16	B17-B15. The cost of settlement fulfillment value estimates the cost assuming the entity fulfills its settles obligation.	CP, Measurement
Paragraph B16 is IED.B17 Paragraph B16 amended to create better lead into the transaction costs in paragraph B17.	B16. A cost of settlement fulfillment value measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the entity expects to incur to satisfy the obligation. Those future outflows of resources include the amounts: a. To be transferred to the liability counterparty; and a-b. The entity expects to be obliged to transfer to other parties to settle the liability.	CP, Measurement
Paragraph B17 is IED.B18	B18-B17. The price used to measure the cost of fulfilling settling the liability shall not be adjusted for <i>transaction costs</i> incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the entity expects to incur. In contrast, transaction costs that are expected to be incurred, or exit-based, in settling the liability are a future outflow of resources that is relevant in measuring the cost to fulfill-settle the liability and are included in measuring the cost of settlement fulfillment value .	CP, Measurement
Paragraph B18 is IED.B19	B19-B18. Where the cost of settlement fulfillment value depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of settlement fulfillment value , which aims to reflect all those possible outcomes in an unbiased manner.	IPSASB CF 7.75
Paragraph B19 is IED.B20	B20-B19. Where settlement of the obligation will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date using a measurement valuation technique. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the obligation to be settled within one year.	IPSASB CF 7.78
	Fulfilling-Settling its Obligations	
Paragraph B20 is IED.B21	B24-B20. The cost of settlement fulfillment value is the cost that the entity expects to incur to settle its obligation in the normal course of operations.	CP, Measurement
Paragraph B21 is IED.B22	B22-B21. In estimating the cost to settle its obligation in the	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph B21 was updated as counterparties are often unknown on measurement date (Agenda Item 7.2.28)	normal course of operations, the entity assumes the obligation will be fulfilled under the existing terms of the arrangement, with the current counterparty and that the liability will not be transferred to a third party.	nt
Paragraph B22 is IED.B23	B23-B22. In estimating the cost of settlement fulfillment value the entity takes into account all readily available information at the measurement date under current market conditions in estimating the outflow of resources required to settle the liability at the expected settlement date.	CP, Measurement
Paragraph B23 is IED.B24	B24-B23. The cost of settlement fulfillment value shall not include the non-performance risk of the entity to settle its obligation. A cost of settlement fulfillment value measurement is a measure of the value of a liability assuming the entity will fulfil its obligations. As non-performance risk takes into account the effect on the value of a liability of the entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of settlement fulfillment value measurement assumes the liability will be fulfilled-settled in the normal course of operations.	CP, Measurement
	Valuation Techniques	
	B25-B24. The cost of settlement cannot be observed directly in an active market. It is determined using measurement techniques.	Based on A30 of fair value AG for consistency
Paragraph B25 is IED.B25	B26-B25. An entity shall use measurementvaluation techniques that are appropriate in the circumstances and for which sufficient data is available to measure the cost of settlement fulfillment value . The cost of settlement fulfillment value reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those and entity uses itself.	CP, Measurement
Paragraph B26 is IED.B26	B27-B26. The objective of using a measurementvaluation technique is to estimate the cost that the entity will incur in fulfilling-settling the obligations represented by the liability at the measurement date under current market conditions. The most commonly used valuation approach when measuring the cost of settlement fulfillment value is an income approach. The main aspects of that approach as it relates to the cost of settlement fulfillment value are summarized in paragraphs B27–B52.	CP, Measurement
	Income Approach	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph B27 is added to reflect the application of measurement techniques	<p><u>B27. Applying the income approach to estimate the cost of settlement shall take into account the attributes of the cost of settlement measurement basis. This includes:</u></p> <ul style="list-style-type: none"> <u>a. Estimates of future cash flows.</u> <u>b. Possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured, caused by the uncertainty inherent in the cash flows.</u> <u>c. The time value of money.</u> <u>a-d. Other factors that impact the value of the liability.</u> 	Based on A43 of fair value AG for consistency
Paragraph 0 is IED.B27 is generic guidance and has moved to the core text based on Agenda Item 7.2.14.	<p>The income approach converts future outflows of resources (e.g., cash flows) to a single current (i.e., discounted) amount. When the income approach is used, the fulfillment value measurement reflects current market expectations about those future amounts.</p>	
Paragraph IED.B28 is deleted as it is redundant with B28.	<p>The most commonly used valuation techniques when measuring the fulfillment value are present value techniques. (see paragraphs 0–F60);</p>	
Paragraph B28 is IED.B29	<p><u>Present Value Techniques</u></p> <p>B28. Paragraphs <u>IG1–IG180–F60</u> describe the use of present value techniques to measure the <u>cost of settlement</u>fulfillment value. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the <u>cost of settlement</u>fulfillment value to the techniques discussed. The present value technique used to measure the <u>cost of settlement</u>fulfillment value will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.</p>	CP, Measurement
Paragraph IED.B30 is generic guidance and has moved to a separate based on Agenda Item 7.2.14.	<p><u>The Components of a Present Value Measurement</u></p> <p>Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows) to a present amount using a discount rate. A fulfillment value measurement of a liability using a present value technique captures all the following elements from the entity's perspective at the measurement date:</p> <ul style="list-style-type: none"> An estimate of future outflows of resources for the liability being measured. Expectations about possible variations in the amount and timing of the outflows of resources representing the uncertainty inherent in the outflows 	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>of resources.</p> <p>The time value of money, represented by the rate on risk-free monetary liabilities that have maturity dates or durations that coincide with the period covered by the outflows of resources and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).</p> <p>The price for bearing the uncertainty inherent in the outflows of resources (i.e., a risk adjustment).</p> <p>Other factors that the entity would take into account in the circumstances.</p>	
<p><i>Paragraph IED.B31 is generic guidance and has moved to a separate based on Agenda Item 7.2.14.</i></p>	<p>General Principles</p> <p>Present value techniques differ in how they capture the elements in paragraph 0. However, all the following general principles govern the application of any present value technique used to measure the fulfillment value:</p> <p>Outflows of resources and discount rates should reflect entity specific assumptions that market participants would use when pricing the liability that is expected to be settled through fulfillment of the arrangement.</p> <p>Outflows of resources and discount rates should take into account only the factors attributable to the liability being measured.</p> <p>To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the outflows of resources. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.</p> <p>Assumptions about outflows of resources and discount rates should be internally consistent. For example, nominal cash flows, which include the</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.</p> <p>Discount rates should be consistent with the underlying economic factors of the currency in which the outflows of resources are denominated.</p>	
<p>Paragraph IED.B32 is generic guidance and has moved to a separate based on Agenda Item 7.2.14.</p>	<p>Risk Adjustment</p> <p>A fulfillment value measurement using present value techniques is made under conditions of uncertainty because the actual resource flows may ultimately differ from those expected. In many cases both the amount and timing of the outflows of resources are uncertain.</p>	
<p>Paragraph IED.B33 was removed to remove the requirement to include a risk premium (see agenda item 7.2.3)</p>	<p>B29. A fulfillment value measurement should include a risk based on the entity's estimates of future outflows of resources. The estimated risk premium for a fulfillment value measurement is an entity specific assumption. This risk premium does not represent the market risk premium reflecting the amount market participants would demand for bearing the risk that the actual outflows of resources maybe different from their expectations, however, it does reflect the entity's expectation of the variability in timing and amounts related to the flows of resources. The risk adjustment measures the compensation that the entity would require to make the entity indifferent between:</p> <ul style="list-style-type: none"> 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. <p>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.</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph IED.B34 was removed to remove the requirement to include a risk premium (see agenda item 7.2.3)	The risk adjustment shall reflect all risks associated with the liability. It shall not reflect the risks that do not arise from the liability, such as general operational risk that relates to future transactions.	
Paragraph IED.B35 was removed to remove the requirement to include a risk premium (see agenda item 7.2.3)	The risk adjustment shall be included in the measurement in an explicit way. Thus, in principle, the risk adjustment is separate from the estimates of future outflow of resources and the discount rates that adjust those outflows of resources for the time value of money. The entity shall not double-count the risk adjustments by, for example, including the risk adjustment implicitly when determining the estimates of future outflow of resources or the discount rates.	
Paragraph IED.B36 was removed to remove the requirement to include a risk premium (see agenda item 7.2.3)	<p>This Appendix does not specify the technique that is used to determine the risk adjustment. However, to meet the objective in paragraph F32, the risk adjustment shall have the following characteristics:</p> <p>Risks with low frequency and high severity will result in higher risk adjustments than risks with high frequency and low severity;</p> <p>For similar risks, contracts with a longer duration will result in higher risk adjustments than contracts with a shorter duration;</p> <p>Risks with a wide probability distribution will result in higher risk adjustments than risks with a narrower distribution;</p> <p>The less that is known about the current estimate and its trend, the higher the risk adjustment; and</p> <p>To the extent that emerging experience reduces uncertainty, risk adjustments will decrease and vice versa.</p>	
Paragraph IED.B37 was removed to remove the requirement to include a risk premium (see agenda item 7.2.3)	An entity shall apply judgement when determining an appropriate risk adjustment technique to use. If a risk premium were not included, the measurement would not faithfully represent the cost to fulfill the liability. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.	
	Future Outflows of Resources	
Paragraph B29 is IED.B38	B30-B29. The estimates of outflows of resources used to determine the fulfillment value cost of settlement shall include all inflows of resources and outflows of resources that relate directly to the fulfillment settlement of the liability. Those	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>estimates shall:</p> <ol style="list-style-type: none"> a. Be explicit (i.e., the entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources); b. Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs B34–B38); c. Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the entity fulfils the liability (see paragraph B39); and d. Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs B40–B44). 	
Paragraph B30 is IED.B39	<p>Uncertainty and the Expected Value Approach</p> <p>B31.B30. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources is not conditional upon the occurrence of any specified event (unlike the outflows of resources used in the discount rate adjustment technique).</p>	CP, Measurement
Paragraph B31 is IED.B40	<p>B32.B31. In determining the expected outflows of resources an entity must:</p> <ol style="list-style-type: none"> a. Identify each possible outcome; b. Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome; c. Make an unbiased estimate of the probability of each outcome. 	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph B32 is IED.B41	B33-B32. Paragraph B31 requires the estimate of expected values reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.	CP, Measurement
Paragraph is new to clarify least costly manner and expected value are not contradictory concepts (See agenda item 7.2.28).	B33. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph B6 assumes that the liability is settled by the entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.	-
Paragraph B34 is IED.B42	Market Variables and Non-Market Variables (Paragraph B29.b) B34. This application guidance identifies two types of variables: a. Market variables—variables that can be observed in, or derived directly from, markets (e.g., interest rates); and b. Non-market variables—all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).	CP, Measurement
Paragraph B35 is IED.B43	Market Variables B35. Estimates of market variables shall be consistent with observable market prices at the end-of-the-reporting period measurement date. An entity shall not substitute its own estimates for observed market prices except as described in paragraph A510. In accordance with Appendix A, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.	CP, Measurement
Paragraph B36 is IED.B44	Non-Market Variables B36. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.	CP, Measurement
Paragraph B37 is IED.B45	B37. Non-market external data (e.g., national statistics for decommissioning of a nuclear power facility) may have more or less relevance than internal data (e.g., internally developed statistics for decommissioning of a nuclear power facility),	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph B38 is IED.B46	<p>depending on the circumstances.</p> <p>B38. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.</p>	CP, <i>Measurement</i>
Paragraph B39 is IED.B47	<p>Estimating Probabilities of Future Payments (Paragraph B29.c)</p> <p>B39. An entity estimates the probabilities associated with future payments on the basis of:</p> <ul style="list-style-type: none"> a. Information about the known or estimated characteristics of the liability; b. Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted if, for example: <ul style="list-style-type: none"> i. The characteristics of the liability differ (or will differ, for example because of adverse selection) from those of the population that has been used as a basis for the historical data; ii. There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or iii. There have been changes in the entity's practices or procedures that may affect the relevance of historical data to the liability. 	
Paragraph B40 is IED.B48	<p>Under Current Estimates (Paragraph B29.d)</p> <p>B40. In estimating the probability of each outflow of resources scenario, an entity shall use all of the available current information at the end of the reporting period <u>measurement date</u>. An entity shall review the estimates of the probabilities that it made at the end of the previous reporting period <u>measurement date</u> and update them for any changes. In doing so, an entity shall consider whether:</p> <ul style="list-style-type: none"> a. The updated estimates faithfully represent the conditions at the end of the reporting period <u>measurement date</u>; and b. The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of 	CP, <i>Measurement</i>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.</p>	
<p>Paragraph B41 is IED.B49</p>	<p>B41. The probability assigned to each scenario shall reflect the conditions at the end of the reporting period<u>measurement date</u>. Consequently, in accordance with IPSAS 14, <i>Events after the Reporting Date</i>, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommissioning. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with IPSAS 14, that a non-adjusting event occurred after the end of the reporting period).</p>	<p>CP, Measurement</p>
<p>Paragraph B42 is IED.B50</p>	<p>Future Events (Paragraph B29.d)</p> <p>B42. Estimates of non-market variables shall consider not just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods decreasing decommissioning costs. The determination of the outflow of resources reflects the probabilities that would be assigned to each possible trend scenario in the light of all of the available evidence.</p>	<p>CP, Measurement</p>
<p>Paragraph B43 is IED.B51</p>	<p>B43. Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates.</p>	<p>CP, Measurement</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.	
Paragraph B44 is IED.B52	B44. When estimating the outflow of resources associated with fulfilling the liability, an entity shall take into account future events that might affect the outflow of resources. The entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, an entity shall not take into account future events, such as a change in legislation, that would change or discharge the present obligation or create new obligations under the existing liability.	CP, Measurement
Paragraph B45 is IED.B53	Time Value of Money B45. Entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.	CP, Measurement
Paragraph B46 is IED.B54	B46. An entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall: a. Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity. b. Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.	CP, Measurement
Paragraph B47 is IED.B55	B47. When using a risk-free rate, the logical sources of reference rates are high quality bonds, for example, bonds issued by a financially sound government. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.	CP, Measurement
Paragraph B48 is IED.B56	B48. Although rates on high quality government bonds will not need	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	to be adjusted for default risk in determining the risk-free <u>risk-free</u> discount rate, they may need to be adjusted for liquidity risk. Some government bonds are traded in deep and liquid markets enabling bond holders to readily sell them at minimal cost. The rate payable on such bonds is lower than the rate payable on an equivalent illiquid bond. Accordingly, it might be necessary to include a 'premium for illiquidity' in the observed rate for government bonds that are not traded in deep and liquid markets.	nt
	Inputs to Valuation Techniques	
	General Principles	
Paragraph B49 is IED.B57	B49. Measurement <u>Valuation</u> techniques used in a <u>cost of settlement fulfillment value</u> measurement reflects entity-specific assumptions rather than assumptions used by market participants.	CP, Measurement
Paragraph B50 is IED.B58	B50. The <u>cost of settlement fulfillment value</u> measurement is an entity specific valuation. When a measurement <u>valuation</u> technique is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph B14). The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the entity, from the entity's perspective. For example, when measuring the cost to fulfill settle a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the entity.	CP, Measurement
Paragraph B51 is IED.B59	B51. In some cases the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However, a <u>cost of settlement fulfillment value</u> measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the IPSAS that requires or permits the <u>cost of settlement fulfillment value</u> measurement.	CP, Measurement
Paragraph B52 is IED.B60	B52. When a liability will settle at a future date, the assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on settlement and the associated discount rate are both based on information available at the measurement date.	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Appendix C: Historical Cost—application guidance <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
<p>Paragraph C1 is added for consistency across all AGs (see agenda item 7.2.26)</p>	<p>Measurement</p> <p>C1. <u>The objective of an historical measurement is to provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them. Historical cost is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development. The objective of an historical cost measurement of an asset is to identify the consideration given to acquire and/or develop the asset.</u></p>	<p>IASB's CF 6.4</p>
<p>Paragraph C2 is IED.C1 and is amended to provide HC guidance on liabilities (see agenda item 7.2.26)</p>	<p>C2. <u>Historical cost is:</u></p> <p><u>(a) The consideration given to acquire, construct and/or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development; or</u></p> <p><u>(b) The consideration received to incur or take on a liability.</u></p> <p><u>Historical cost is the cash or cash equivalents or the value of the other consideration given or received, at the time of the asset is acquired or developed or the liability is incurred. The objective of an historical cost measurement of an asset is to identify the consideration given to acquire, construct and/or develop the asset.</u></p>	<p>IPSASB's CF 7.13</p>
<p>Paragraph C3 is IED.C2</p>	<p>C2-C3. <u>An historical cost measurement requires an entity to determine all the following:</u></p> <p><u>(a)(c) The particular asset or liability that is the subject of the measurement (consistently with its unit of account).</u></p> <p><u>(b)(d) The consideration the entity gave to acquire, construct and/or develop the asset, or received to incur the liability, in terms of:</u></p> <p style="margin-left: 40px;">(i) Cash;</p> <p style="margin-left: 40px;">(ii) Cash equivalents; and</p> <p style="margin-left: 40px;">(iii) The value of other consideration.</p> <p><u>(c) Factors used to identify what consideration should be included in (or excluded from) the asset or liability's historical cost, including (for example) costs that are directly attributable to its acquisition and/or development and should be included (or not directly attributable and</u></p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	should be excluded).	
Paragraph IED.C3 is deleted. It is specific application of the general principle to discount the payments in C18. Paragraph is back in IPSAS 16.31.	Deferred Payment–Cash Price Equivalent If payment for an asset is deferred, then the consideration to include in its historical cost is the cash-price equivalent of the payment. The difference between this amount and the total payments is recognized as interest expense over the period of credit.	IPSAS 16.31
Paragraph IED.C4 is deleted. It is specific application of the general principle to use a current value measurement basis in C14. Paragraph is back in IPSAS 17.38.	The Value of Other Consideration: Exchange for Non-Monetary Asset(s) The consideration for an asset acquired in exchange for a nonmonetary asset or assets, or a combination of monetary and non-monetary assets, is the appropriate current value of the asset(s) given up³, unless (a) the transaction is non-exchange or otherwise lacks commercial substance or (b) the current value of the asset given up cannot be measured to achieve the qualitative characteristics, taking into account the constraints. In those circumstances, the consideration for the acquired asset is the carrying amount of the asset given up.	IPSAS 17.38
Paragraph C4 is IED.C5	The Asset <u>Measured at Historical Cost or Liability</u> C3.C4. The asset <u>or liability</u> measured at historical cost might be one of the following: a. A stand-alone asset <u>or liability</u> ; or b. A group of assets, a group of liabilities or a group of assets and liabilities. c. Assets that form part of a group of assets and liabilities (e.g., a cash-generating unit or an operation).	
Paragraph C5 is IED.C6	C4.C5. Whether the asset <u>or liability</u> is a stand-alone asset <u>or liability</u> , a group of assets, <u>a group of liabilities</u> , or assets that form part of a group of assets and liabilities for recognition or disclosure purposes depends on its <i>unit of account</i> . The unit of account for the asset shall be determined in accordance with the IPSAS that requires or permits the historical cost measurement.	
Paragraph C6 is IED.C7	<u>Historical Cost is Entity-Entity-Specific and Asset-specific Value</u> C5.C6. Historical cost is an entity-specific <u>measurement basis value</u> . Identification of the consideration given to acquire, <u>construct</u> and/or develop the asset, <u>or received to incur the liability</u> ,	

³ ——— Refer to the consultation paper's flow-chart as guidance for choice of an appropriate current value. IPSAS 16 and 17 presently require that the cost of such an asset is measured at fair value, using the "old" definition of fair value, which is equivalent to the Conceptual Framework's definition of market value, and allows for either an entry value or an exit value.

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>requires an understanding of the entity-specific:</p> <p><u>(a) Characteristics of the asset or liability;</u></p> <p>(a)(b) Processes to acquire, <u>construct</u> and/or develop the asset <u>or incur the liability</u>; and</p> <p><u>(c) Procedures and timing for asset use (i.e., its use to provide services and/or generate cash flows) or liability settlement; and</u></p> <p>(b)(d) <u>The time value of money.</u></p>	
<p>Paragraph C7 is IED.C8</p>	<p><u>C7.</u> The entity's:</p> <p>(a) acquisition <u>Acquisition</u> and development processes; and</p> <p>(b) asset <u>Asset</u> usage timing and procedures;</p> <p>Are also asset-specific, so that an historical cost measurement depends on collecting information about how the entity acquired, <u>constructed</u> and/or developed the particular asset that and is either readying for use or has put into use.</p>	
<p>Paragraph C7 is added to provided to provide HC guidance on liabilities (see Agenda Item 7.2.26)</p>	<p><u>C8.</u> The entity's</p> <p>(a) <u>Processes for how and when it incurs the liability; and</u></p> <p>(b) <u>Settlement process;</u></p> <p><u>Are also liability-specific, so that an historical cost measurement depends on collecting information about how the entity incurred the particular liability and is planning to settle it.</u></p>	
<p>Paragraph C9 is added to include guidance on initial recognition (see Agenda Item 7.2.15)</p>	<p>Historical Cost at Initial Recognition</p> <p>C6.C9. The historical cost of an asset when it is acquired or created is the value of the costs <u>total cost</u> incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs. The historical cost of a liability when it is incurred or taken on is the <u>total cost</u> value of the consideration received to incur or take on the liability minus transaction costs.</p>	<p>IASB's CF 6.5 IPSASB CF 7.14</p>
<p>Paragraph C10 is added to include guidance on initial recognition (see Agenda Item 7.2.15)</p>	<p>C7.C10. Transaction costs incurred in acquiring an asset or incurring a liability are a feature of the transaction in which the asset was acquired or liability was incurred. The historical cost of the asset or liability reflects those transaction costs as the entity could not have acquired the asset or liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or liability are feature of a possible future transaction. Historical cost does not include these possible transaction costs because, as an entry value, historical cost reflects the costs of acquiring the asset or</p>	<p>IASB's CF BC6.32 and BC6.33</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	incurring the liability.	
Paragraph C11 is IED.C11	C8.C11. The purchase of an asset may be followed by further expenditures to adapt the asset for the entity's own use and, until the asset is able to be used by the entity for its intended purpose, expenditures necessary to bring the asset into use will be included in the consideration identified as part of the asset's historical cost.	
	<i>Transaction on Market Terms</i>	
Paragraph C12 is added to include guidance on initial recognition (see Agenda Item 7.2.15)	C9.C12. When an asset is acquired or a liability is assumed in an exchange transaction, the transaction price is the price paid to acquire the asset or received to assume the liability.	Based on A25 of FV AG for consistency (Market terms concepts are consistent between FV and HC)
Paragraph C13 is added to include guidance on initial recognition (see Agenda Item 7.2.15)	C10.C13. Applying the transaction price in measuring historical cost assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.	Based on A6 of FV AG for consistency (Market terms concepts are consistent between FV and HC)
	<i>Transaction on Non-Market Terms</i>	
Paragraph C14 is added to include guidance on initial recognition (see Agenda Item 7.2.15)	C11.C14. When an asset is acquired or created, or a liability is incurred or taken on, as a result of an event that is not a transaction on market terms, it may not be possible to observe a transaction price, or the transaction price may not provide relevant information about the asset or liability. In some such cases, a current value measurement basis is used as a deemed cost on initial recognition to measure the value of the asset or liability. Current value measurement bases include fair value, cost of settlement, value in use and current cost.	IASB's CF 6.6
Paragraph C15 is added to include guidance on initial recognition (see Agenda Item 7.2.15)	C12.C15. Deemed cost is then used as a starting point for subsequent measurement at historical cost. Any difference between deemed cost and any consideration given or received would be recognised <u>recognized</u> as income or expenses at initial recognition, unless otherwise required in the relevant IPSAS.	IASB's CF 6.6 and 6.81
Paragraph C16 is added to include guidance on initial recognition (see Agenda Item 7.2.15)	C13.C16. Assets may be acquired, or liabilities may be incurred, as a result of an event that is not a transaction on market terms when:	IASB's CF 6.80

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>(a) The transaction price may be affected by relationships between the parties, or by financial distress or other duress of one of the parties;</p> <p>(b) An asset may be granted to the entity free of charge by a government or donated to the entity by another party;</p> <p>(c) A liability may be imposed by legislation or regulation; or</p> <p>(d) A liability to pay compensation or a penalty may arise from an act of wrongdoing.</p>	
<p>Paragraph C17 is added to include guidance on initial recognition (see Agenda Item 7.2.15)</p>	<p>C14.C17. When assets are acquired, or liabilities incurred, as a result of an event that is not a transaction on market terms, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recogniserecognize other assets, other liabilities, contributions from holders of equity claims or distributions to holders of equity claims to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.</p>	<p>IASB's CF 6.82</p>
<p>Paragraph C18 is IED.20</p>	<p>Deferred Payments</p> <p>C15.C18. Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant—the amount of the future payment is discounted so that, at the time a liability is first recognized, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.</p>	<p>IPSASB's CF 7.72</p>
<p>Paragraph IED.C9 has been deleted. It is specific application of the general principle of considerations in measuring HC in C6.</p>	<p>The Asset's Acquisition and/or Development</p> <p>C16. When measuring historical cost an entity shall identify the consideration applicable to the asset's acquisition and/or development, by taking into account:</p> <p>a. The entity's process to acquire and/or develop the asset;</p> <p>b. The period during which the entity incurred acquisition costs and/or development costs for the asset; and</p> <p>c. When the entity began to use the asset to provide services and/or generate future economic benefits.</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<p>Paragraph IED.C10 has been deleted as indicating the process to acquire an asset maybe complex or simple is not a principle.</p> <p>Paragraph IED.C11 has been moved to C11</p>	<p>Process to Acquire, Construct, and/or Develop an Asset The process to acquire an asset may be relatively simple (e.g., purchase of a car or a bond) or complex (e.g., development of new software or construction of a subway line).</p> <p>The purchase of an asset may be followed by further expenditures to adapt the asset for the entity's own use and, until the asset is able to be used by the entity for its intended purpose, expenditures necessary to bring the asset into use will be included in the consideration identified as part of the asset's historical cost.</p>	
<p>Paragraph IED.C12 has been deleted. It is specific application of the general principle that transaction costs are included in HC in C10 and C11. Paragraph is back in IPSAS 16.28.</p>	<p>Acquisition of an Asset through Purchase: The Consideration Given The consideration of a purchased asset is the price paid to acquire the asset and any directly attributable expenditure. Directly attributable expenditure includes: Transaction costs arising when acquiring an asset; Transport costs incurred to transport the asset from the location where it was purchased to the place where it is used by the entity; and Expenditures necessary to adapt the asset for the entity's own use.</p>	<p>IPSAS 16.28</p>
<p>Paragraph IED.C13 has been moved to C10.</p>	<p>Transaction costs incurred in acquiring an asset are a feature of the transaction in which the asset was acquired. The historical cost of the asset reflects those transaction costs as the entity could not have acquire the asset without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset are feature of a possible future transaction. Historical cost does not include these possible transaction costs because, as an entry value, historical cost reflects the costs of acquiring the asset.</p>	<p>IASB's Conceptual Framework BC6.32 and BC6.33</p>
<p>Paragraph IED.C14 has been deleted. It is specific application of the general principle that transaction costs are included in HC in C11.</p>	<p>Construction and Development of an Asset: The Consideration Given The consideration of an asset that the entity has constructed or developed itself comprises:(a) The consideration of purchased assets used in the construction or development of the asset; and (b) Other consideration directly attributable to the asset's construction or development.</p>	
<p>Paragraph IED.C15 is deleted. It is specific application of the general principle of what is included in cost in C9. Paragraph is back in IPSAS 17.30 and 17.31.</p>	<p>Purchase, Construction and Development of an Asset: Examples of Consideration to Include C17. Consideration includes costs that are directly attributable to the asset's acquisition and/or development, and these should be included in the asset's historical cost. Examples include: (a) The asset's purchase price, including import duties and</p>	<p>IPSAS 17.30 and IPSAS 17.31</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>non-refundable purchase taxes, after deducting trade discounts and rebates.</p> <p>(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Examples of such costs include:</p> <p>(i) Costs of employee benefits (as defined in IPSAS 25, <i>Employee Benefits</i>) arising directly from the construction or acquisition of the asset;</p> <p>(i) Costs of site preparation;</p> <p>(ii) Initial delivery and handling costs;</p> <p>(iii) Installation and assembly costs;</p> <p>(iv) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and</p> <p>(v) Professional fees arising directly from bringing the asset to its working condition.</p> <p>(c) Estimated costs to discharge an entity's obligations to dispose of the asset or restore the location/situation prior to acquiring and/or developing the asset, where these obligations are incurred either when the item is acquired, or as a consequence of having used the item during the asset acquisition and/or development period.</p>	
<p><i>Paragraph IED.C16 is deleted. It is specific application of the general principle of what is included in cost in C9.</i></p>	<p>Purchase, Construction and Development of an Asset: Examples of Consideration to Exclude</p> <p>Costs related to an asset's acquisition and/or development are excluded from the consideration that forms part of an asset's historical cost, if they either:</p> <p>Are not directly attributable to the asset's acquisition and/or development; or</p> <p>Do not contribute to the asset's service potential and/or ability to generate future economic benefits.</p>	
<p><i>Paragraph IED.C17 is deleted. It is specific application of the general principle of what is excluded from cost in C9. Paragraph is back in IPSAS 12.25 and 17.36.</i></p>	<p>Examples of such costs include:</p> <p>Administration and other general overhead costs.</p> <p>Start-up costs that are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. For example,</p>	<p>IPSAS 12.25 and IPSAS 17.36</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>Costs of opening a new facility or introducing a new product or service (including costs of advertising and promotional activities); and</p> <p>Costs of conducting business in a new location or with a new class of customers (including costs of staff training).</p> <p>Costs of operations that are unnecessary and incidental to the asset, even though the costs may occur before or during the asset's acquisition, construction or development activities. For example, a building site may be operated as a car park until construction starts. The car park operations are not necessary to construction of the building (i.e., bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management), and the related revenue and expenses are recognized in surplus or deficit, rather than included in the building's historical cost.</p> <p>Operating losses incurred before the asset achieves its intended level of use; or</p> <p>Abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the asset.</p>	
<p><i>Paragraph IED.C18 is deleted. It is specific application of the general principle of what is included in cost in C9.</i></p>	<p>Excluded: Costs Incurred Prior to Recognition of an Asset</p> <p>Costs are excluded from an asset's historical cost where those costs occur before the point at which another IPSAS allows that an asset should be recognized. IPSAS 31, <i>Intangible Assets</i>, specifies that expenditure incurred before the date when an internally generated intangible asset first meets the recognition criteria in IPSAS 31 shall be expensed. IPSAS 31 prohibits reinstatement of expenditure previously recognized as an expense.</p>	
<p><i>Paragraph IED.C19 is deleted. It is specific application of the general principle of what is cut off from cost in C9. Paragraph is back in IPSAS 31.37.</i></p>	<p>Excluded: Costs Incurred After the Acquisition and/or Development of the Asset</p> <p>C18.—Once the entity has acquired and/or completed the adaption or development of an asset, further costs are not included in the asset's historical cost. For example, once an asset is in the location and condition necessary for it to be capable of being used in the manner intended by management further costs are excluded from the asset's historical cost. Examples of costs to exclude include:</p> <p>(a) Costs incurred while an asset is capable of operating in the manner intended by management and has not yet been brought into use or is operated at less than full</p>	<p>IPSAS 31.37</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>capacity;</p> <p>(b) Initial operating losses, such as those incurred while demand for the asset's output builds up; and</p> <p>(c) Costs of relocating or reorganizing part or all of the entity's operations.</p>	
Paragraph C19 is added to include guidance on subsequent measurement (see Agenda Item 7.2.15)	<p>Subsequent Measurement</p> <p><u>C19. After initial measurement, the historical cost of an asset or liability is updated to reflect current events. The initial measurement, determined in accordance with paragraphs C9-C18, serves as the starting point for these updates. As a result, a historical cost measurement continues to provide information derived from the transaction price.</u></p>	-
Paragraph C20 is added to include guidance on subsequent measurement (see Agenda Item 7.2.15)	<p><u>C19-C20. The historical cost of an asset or a liability is updated over time to depict the occurrence of current events.</u></p>	Based on IASB's CF 6.7 and 6.8
Paragraph C21 is IED.C20	<p>Amortized Cost</p> <p><u>C20-C21. The historical cost measurement basis is applied to financial instruments by measuring the instruments at amortized cost. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial recognition. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.</u></p>	IASB's CF 6.9
Paragraph C22 was added to more accurately reflect IPSAS 41 principle of amortized cost (see agenda item 7.2.26)	<p><u>C21-C22. Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization, and, for financial assets, adjusted for any loss allowance. Amortization is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.</u></p>	IPSAS 41.9
Paragraph C23 is IED.C21. Updated to more accurately reflect IPSAS 41 principle (see agenda item 7.2.26)	<p><u>C22-C23. For variable rate instruments, where the asset or liability bears interest at a variable rate, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognized initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability. the discount rate is updated to reflect changes in the</u></p>	IPSAS 41.AG160

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	variable rate.	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>Appendix D: Replacement Cost—application guidance</p> <p><i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i></p>	
<p><i>Paragraph D1 is IED.D1</i></p>	<p>Measurement</p> <p>D1. The objective of replacement cost measurement is to estimate the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date. Replacement cost measurement requires an entity to determine all of the following:</p> <ul style="list-style-type: none"> a. The particular asset that needs to be measured. b. The most economic manner to replace the service potential of the asset. c. The appropriate valuation technique(s), considering the availability of data with which to develop inputs that represent the economic position of the entity. 	
<p><i>Paragraph D2 is IED.D2</i></p>	<p>The Asset</p> <p>D2.D1. A replacement cost measurement is for a particular asset. Therefore, when measuring the replacement cost, an entity takes into account the characteristics of the particular asset relevant in determining the replacement cost at the measurement date.</p>	
<p><i>Paragraph D3 is IED.D3</i></p>	<p>Characteristics of the Asset</p> <p>D3. It is often difficult to separate the factors impacting the replacement cost of an asset into characteristics of the asset itself and the asset's intended use, which relate more to the asset's service potential (see paragraph 0). The following characteristics of an asset will often impact the determination of its replacement cost:</p> <ul style="list-style-type: none"> a. The location of the asset; and b.a. The condition of the asset 	
<p><i>Paragraph D4 is IED.D4</i></p>	<p>The Location of the Asset</p> <p>D4.D2. If there is no locational requirement for the asset, the asset's replacement cost may assume that the notional replacement will be situated on an alternative site which can provide the same service potential in a more cost effective way. However, the location of an asset may impact its replacement cost in situations where a social policy decision has been made requiring the asset to be located in a specific location.</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<i>Paragraph D5 is IED.D5</i>	<p>D5-D3. For example, schools and hospitals will ideally be located within the communities they serve; and local authority offices will be easily accessible to all citizens. The land on which these schools, hospitals or offices are built might be in expensive inner-city sites or in town and city centers. Where a social policy decision has been made requiring the asset be located in a specific location, the replacement cost of the land is based on the current value of the existing site, rather than on cheaper land located further away from the communities they serve.</p>	
<i>Paragraph D6 is IED.D6</i>	<p>The Condition of the Asset</p> <p>D6-D4. The replacement cost presented in the Statement of Financial Position and Notes to the Financial Statements should reflect the cost of replacing the service capacity of the asset at the reporting date. Thus the current gross replacement cost of a modern equivalent asset is adjusted by making deductions for physical obsolescence, functional obsolescence, and economic obsolescence (see paragraphs D30-D32), which are also used to assist in determining the useful economic life of the asset.</p>	
<i>Paragraph D7 is IED.D7</i>	<p>Componentization</p> <p>D7-D5. An entity is required to allocate the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciate separately each such part. For example, an office building might comprise its external structure (foundations, walls, floors and roof—all of which have different design lives); its internal fit-out (offices, reception area, kitchen and canteen—which might have different lives; and plant (elevators, for example). The replacement cost of the building as a whole will normally have a separate useful life and replacement cost when compared to each component. The assessment of the remaining life of the external structure and the plant may be based on a consideration of the physical obsolescence as noted in paragraph 0.</p>	
<i>Paragraph D8 is IED.D8</i>	<p>D8-D6. It is therefore important that the entity identifies the 'significant parts' or components before the assessment of the replacement cost of the service capacity of the asset can begin. This is because the extent of componentization adopted by the entity could affect the scope of work in terms of the information collected during the assessment. In identifying components, an entity should have regard to the materiality of the asset(s) in relation to the statement of financial position and also think carefully about what is</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	'significant' so as not to make the accounting process overly burdensome but at the same to ensure that the information presented in the financial statements is of relevance to users.	
Paragraph D9 is IED.D9	D9.D7. There may be circumstances where an asset does not have any individually significant components, or the components of the asset all have similar useful lives and depreciation methods. Such components may be grouped in determining the replacement cost (and subsequent depreciation charge) of the asset as a whole.	IPSAS 17.61
Paragraph D10 is IED.D10	D10.D8. Similarly, groups of assets which all have a similar useful life and depreciation method may be grouped in determining the replacement cost and subsequent depreciation charge for the entire group of assets. Such circumstances may exist where multiple assets are interdependent and have similar useful lives. For example, different types of infrastructure, including dams, waterways, clean water supply, and grey and dirt water treatment facilities; roads and road-related structures; rail networks; as well as electricity and gas supply networks may have assets that are all depreciated over similar time periods and on the same basis. However, in other cases, even though these assets work together to perform a single related function, each asset within the group may consist of significant components with different useful lives and replacement costs, so an entity will need to apply judgement to determine the appropriate level of componentization.	
Paragraph D11 is IED.D11	The Service Potential of the Asset D11.D9. The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service capacity to deal with contingencies. Therefore, the replacement cost of an asset reflects expected changes in required service capacity.	Based on IPSASB's CF 7.41
Paragraph D12 is IED.D12	D12.D10. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for the current and reasonably foreseeable requirements, the replacement cost of the asset is that of a school for 100 pupils.	Based on IPSASB's CF 7.41
Paragraph D13 is IED.D13	D13. When estimating the service potential of an asset, an entity shall take into account the characteristics of the asset, which include: (a) The intended use of the asset; (b) The specifications of the asset; and (c) Restrictions, if any, on the sale or use of the asset.	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<i>Paragraph D14 is IED.D14</i>	<p data-bbox="432 293 799 322">The Intended Use of the Asset</p> <p data-bbox="432 344 1254 636">D14.D11. In carrying out an assessment of the replacement cost of land and built property, it is the use to which the asset has been put that will be the basis of the calculation of the replacement cost. For example, the replacement cost of an aircraft hangar that is being used as a storage warehouse will be that of a warehouse. Another example might be where city center land has been designated by the local authority as parkland.</p>	
<i>Paragraph D15 is IED.D15</i>	<p data-bbox="432 665 804 694">The Specifications of the Asset</p> <p data-bbox="432 716 1254 860">D15.D12. There are several examples in the public sector of assets whose specifications are such that there are few (if any) similar assets whose replacement cost can be assessed in an active and liquid market.</p>	
<i>Paragraph D16 is IED.D16</i>	<p data-bbox="432 882 1254 949">Buildings of Conventional Appearance that have Specialized Features</p> <p data-bbox="432 972 1254 1637">D16.D13. Some buildings have a conventional basic design that is superficially similar to other buildings that are regularly bought and sold in the market, but on closer inspection have specialized features designed to meet the requirements of the actual occupier. A typical example is a purpose-built embassy, which, although built to perform an office function, is situated on a site that includes extra stand-off land and includes designed-in security features such as thickened walls and toughened glazing. This type of building will often cost considerably more to develop and build than a normal office building, but provide extra service potential (in the form of security for its occupants) which cannot be replicated through the purchase of a normal office building. In this instance, provided that the occupying entity continues to require the extra service potential, the building should be treated as specialized and its replacement cost should take into account the extra cost of the specialized internal features and requirement for stand-off land.</p>	
<i>Paragraph D17 is IED.D17</i>	<p data-bbox="432 1659 983 1688">Buildings that Include Specialized Adaptations</p> <p data-bbox="432 1711 1254 1926">D17.D14. As another example, some buildings will comprise conventional structures that have been adapted to the requirement of the occupier. For example, a commercial office building may have been purchased by a government department and adapted by provision of enhanced security features such as perimeter barriers or toughened glazing. An</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>entity might opt to treat the cost of such specialized adaptations as a separate item in its financial statements;⁴ in these cases, the entity will value the conventional building. Where the entity has not accounted for the costs of adaptation separately, the entity will need to consider whether the adaptations would impact the building's replacement cost.</p>	
<p><i>Paragraph D18 is IED.D18</i></p>	<p>D18.D15. Where an entity opts to include the adaptation costs within the property interest, the entity will need to ensure that those performing the valuation understand the general nature of the adaptations. It will not be appropriate, for example, for an entity to value an embassy's additional stand-off land (see paragraph 0) as surplus land: it is a necessary part of the property. Nor will it be appropriate for an entity to value a newly built embassy building as a conventional office block.</p>	
<p><i>Paragraph D19 is IED.D19</i></p>	<p>Historic Buildings</p> <p>D19.D16. It is rarely appropriate to value historic buildings on the basis of costing a modern reproduction by use of an identical replacement or modified reconstruction approach. Where an entity is considering doing so, it must be able to demonstrate that it is not valuing a mere facsimile of the existing asset and that the historic property itself is intrinsically part of the service potential.</p>	
<p><i>Paragraph D20 is IED.D20</i></p>	<p>D20.D17. Where the historic nature of the property itself contributes to the service provided, it would be appropriate to reflect the cost of reproducing the existing asset in the cost of the modern equivalent. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation, because of its significance to the community. However, where it would be impossible for a modern reproduction to recreate the original's historic significance, entities should not cost such a reproduction.</p>	
<p><i>Paragraph D21 is IED.D21</i></p>	<p>D21.D18. Buildings of iconic status (which might or might not be historic or listed) that would be replaced by similarly iconic buildings should be valued on the basis of a modern equivalent asset but including the costs of achieving that iconic status. For example, the replacement cost of an historic court house might be that of a modern court house with the addition of either a façade in keeping with the surrounding buildings, or even a reproduction facade (a replica of the façade of the existing court house.)</p>	

⁴ As a guide, whilst specialized features designed in to purpose built buildings should normally be accounted for as part of the whole building, adaptations to existing buildings should normally be accounted for separately.

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<p><i>Paragraph D22 is IED.D22Paragraph D22 was updated. The example did not clarify the principle (see agenda item 7.2.25)</i></p>	<p>Restrictions on the Sale or Use of the Asset</p> <p>D22.D19. The entity should also consider any factors that might affect the cost of replacing the service capacity of the existing asset. The existing use of the asset will be considered in the light of environmental issues such as the present and future characteristics of the location in terms of, for example, forecast demographic changes; local planning policies; national planning policies; existing restrictions on the use of the land and/or buildings; any restrictions on the sale or use of the land and/or buildings. An example of the latter might be where property was donated to a local authority 100 years ago, with restrictive clauses in the Deed of Gift so that the local authority can only use the property for the provision of named services (such as recreational or health).</p>	
<p><i>Paragraph D23 is IED.D23</i></p>	<p>The Most Economic Cost</p> <p>D23.D20. A replacement cost measure assumes the service potential of the asset is replaced in the least costly manner.</p>	<p><i>Based on IPSASB's CF 7.39</i></p>
<p><i>Paragraph D24 is IED.D24</i></p>	<p>D24.D21. Replacement cost adopts an optimized approach and may differ from reproduction cost, which is the cost of acquiring an identical asset. Although in many cases the most economic replacement of the service potential will be by purchasing an asset that is similar to that which is controlled, replacement cost may be based on an alternative asset if that alternative would provide the same service potential more cheaply.</p>	<p><i>IPSASB's CF 7.40</i></p>
<p><i>Paragraph D25 is IED.D25</i></p>	<p>Entity-Specific Value</p> <p>D25.D22. Replacement cost is an entity specific value. An entity shall measure the cost of replacing an asset's service potential using the assumptions from the entity's perspective, assuming the entity acts in its own economic best interest.</p>	
<p><i>Paragraph D26 is IED.D26</i></p>	<p>D26.D23. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner of replacing an asset's service potential, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, because entities usually acquire their assets by the most economic means available, replacement cost reflects the procurement or construction process that an entity generally follows. Replacement cost reflect the replacement of service potential in the ordinary course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<i>Paragraph D27 is IED.D27Header "transaction-costs" is removed for consistency with other AGs.</i>	<p>Transaction Costs</p> <p>D27.D24. As an asset's replacement cost represents an entity-specific entry price to replace the service potential of the asset, transaction costs incurred in acquiring, or that would be incurred in replacing, the asset are included in its determination.</p>	
<i>Paragraph D28 is IED.D28</i>	<p>Valuation Techniques</p> <p>D28.D25. An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure the cost of replacing an asset's service potential, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</p>	
<i>Paragraph D29 is IED.D29</i>	<p>Market Price or Current Replacement Cost of a Modern Equivalent Asset</p> <p>D29.D26. In many cases, the replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. The replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. In the case of specialized buildings, other man-made structures and some equipment, values may be estimated using replacement cost, which may involve determining the asset's reproduction cost or use of the service units approach.</p>	Taken from IPSAS 17.47 and 17.48 (and amended).
<i>Paragraph D30 is IED.D30</i>	<p>Depreciated Replacement Cost</p> <p>D30.D27. Replacement cost is sometimes described as depreciated (or optimized depreciated) replacement cost. This valuation method measures value by calculating the current replacement cost of a modern equivalent asset—that is, a notional asset providing an equivalent service potential as the existing asset while using the latest technology available—and then making deductions (the 'depreciation' of depreciated replacement cost) for the following forms of obsolescence and optimization:</p>	
<i>Paragraph D31 is IED.D31</i>	<p>Physical Obsolescence</p> <p>D31.D28. Physical obsolescence relates to any loss of service capacity due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such</p>	

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	<p>maintenance may provide insight into the asset or its components' useful life and their rate of deterioration.</p>	
<p><i>Paragraph D32 is IED-D32</i></p>	<p>Functional Obsolescence</p> <p>D32-D29. Functional obsolescence relates to any loss of service capacity resulting from inefficiencies in the asset that is being valued compared to its modern equivalent — is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in military materiel could mean that hardened aircraft hangers would be replaced by different types of structures. Such advances will need to be incorporated into the assessment of functional obsolescence.</p>	
<p><i>Paragraph D33 is IED-D33</i></p>	<p>Economic Obsolescence</p> <p>D33-D30. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. The loss of service capacity might be temporary or permanent. For example, a school might have been built in a residential area and designed to take 500 pupils but demographic changes have resulted in the need for only 300 school places. The determination of replacement cost will need to reflect this reduction in required service capacity.</p>	
<p><i>Paragraph D34 is IED-D34</i></p>	<p>Reproduction Cost</p> <p>D34-D31. An entity should consider very carefully whether or not to use a reproduction cost (or restoration cost) as a technique to determine replacement cost. Such considerations should include whether there is a statutory or other requirement to replace an asset with what is essentially a replica and whether an exact reproduction is possible; if not, then a technique that assesses the replacement of a modern equivalent asset is likely to be more appropriate for financial reporting purposes. The guidance in later paragraphs assumes that the replacement cost is that of a modern equivalent asset.</p>	
<p><i>Paragraph D35 is IED-D35</i></p>	<p>Service Units Approach</p> <p>D35-D32. Under the service units approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the reproduction cost approach, the current cost of replacing the remaining service potential of the</p>	<p>Taken from IPSAS 17.47 and 17.48 (and amended).</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>asset is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.</p>	
<p><i>Paragraph D36 is IED.D36</i></p>	<p>Other Valuation Considerations</p> <p>D36.D33. The cost of a modern equivalent asset will reflect the cost that would be incurred if the works were commissioned on the date of valuation. However, there are factors that may result in the cost of a notional replacement being different from that of creating the actual asset:</p>	
<p><i>Paragraph D37 is IED.D37</i></p>	<p>D37.D34. <i>Site preparation</i> — Work that may have been undertaken to prepare the actual site for occupation might not need to be carried out on an assumed equivalent site. An entity might therefore assume that the site being valued is level and serviced and ready for development.</p>	
<p><i>Paragraph D38 is IED.D38</i></p>	<p>D38.D35. <i>Phasing of work</i> — A large site may have been developed in phases. The cost of a modern equivalent asset would normally be based on a single phase development, and this should be measured at the building cost at the date of valuation. To reflect the assumption that a public entity cannot identify borrowing costs (the cost of capital) that relate to the construction of a specific asset, an entity should assume that the construction has happened ‘instantly’. As a consequence, it follows that there will be no phasing of payments, and there will be no reflection of the cost of capital in the valuation.</p>	
<p><i>Paragraph D39 is IED.D39</i></p>	<p>D39.D36. <i>Optimal working conditions</i> — In situations where there is no locational requirement for the asset (see paragraph 0), abnormal working conditions at the actual site are ignored if an alternative site is being valued.</p>	
<p><i>Paragraph D40 is IED.D40</i></p>	<p>D40.D37. <i>Additional costs arising from extending an existing property</i> — These costs should be ignored, since the norm is that the valuation will be of a modern equivalent asset.</p>	
<p><i>Paragraph D41 is IED.D41</i></p>	<p>D41.D38. <i>Contract variations</i> — Additional construction costs because of design or specification changes should be ignored. The modern equivalent asset being valued will have the same service potential as the existing asset.</p>	
<p><i>Paragraph D42 is IED.D42</i></p>	<p>D42.D39. <i>Planning changes</i> — Entities should consider whether planning consent would need to be obtained were the modern equivalent asset to be constructed on the actual site.</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Appendix E: Current Cost–application guidance <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
	<u>Measurement</u>	
Paragraph E1 is added to provide guidance on new measurement basis – current cost (See Agenda Item 7.2.16)	E1. <u>The objective of a current cost measurement is to estimate the cost of an equivalent asset at the measurement date under current market conditions. A current cost measurement requires an entity to determine all the following:</u> (a) <u>The particular asset that is the subject of the measurement (consistently with its unit of account).</u> (b) <u>The most economic manner to replace the service potential of the asset.</u> (c) <u>The measurement technique(s) appropriate for estimating the current cost, considering the availability of data with which to develop inputs that represent the assumptions that are specific to the entity.</u>	Based on A1 of FV AG for consistency (CC is entity specific / FV is from market participants perspective) Includes aspects of D1 of deleted RC AG.
	<u>The Asset</u>	
Paragraph E2 is new (See Agenda Item 7.2.16)	E2. <u>A current cost measurement is for a particular asset. Therefore, when measuring current cost an entity shall take into account the characteristics of the asset at the measurement date. Such characteristics include, for example, the following:</u> (a) <u>The condition and location of the asset; and</u> (b) <u>Restrictions, if any, on the sale or use of the asset.</u>	Based on A2 of FV AG for consistency Includes aspects of D2 of deleted RC AG.
Paragraph E3 is new (See Agenda Item 7.2.16)	E1-E3. <u>The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity.</u>	Based on A3 of FV AG for consistency
	<u>The Condition of the Asset</u>	
Paragraph E4 is new (See Agenda Item 7.2.16)	E4. <u>The current cost should reflect the cost of replacing the service potential of the asset at the measurement date. Thus, the current cost takes into account physical obsolescence, functional obsolescence, and economic obsolescence, which are also used to assist in determining the useful economic life of the asset.</u>	Based on D6 of deleted RC AG
Paragraph E5 is new (See Agenda Item 7.2.16)	E5. <u>The cost approach estimates the current cost by calculating the current replacement cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset while using the latest technology available—and then making deductions (the ‘depreciation’ of depreciated replacement cost) for the following forms of obsolescence and optimization:</u>	Based on D30-D34 of deleted RC AG

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>(a) <u>Physical Obsolescence. Physical obsolescence relates to any loss of service capacity due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful life and their rate of deterioration.</u></p> <p>(b) <u>Functional Obsolescence. Functional obsolescence relates to any loss of service capacity resulting from inefficiencies in the asset that is being valued compared to its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in military materiel could mean that hardened aircraft hangers would be replaced by different types of structures. Such advances will need to be incorporated into the assessment of functional obsolescence.</u></p> <p>(c) <u>Economic Obsolescence. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. The loss of service capacity might be temporary or permanent. For example, a school might have been built in a residential area and designed to take 500 pupils but demographic changes have resulted in the need for only 300 school places. The determination of replacement cost will need to reflect this reduction in required service capacity.</u></p> <p>(a)(d) <u>Reproduction Cost. An entity should consider very carefully whether or not to use a reproduction cost (or restoration cost) as a technique to determine current cost. Such considerations should include whether there is a statutory or other requirement to replace an asset with what is essentially a replica and whether an exact reproduction is possible; if not, then a technique that assesses the replacement of a modern equivalent asset is likely to be more appropriate for financial reporting purposes. The guidance in later paragraphs assumes that the replacement cost is that of a modern equivalent asset.</u></p>	
<p>Paragraph E6 is new (See Agenda Item 7.2.16)</p>	<p>E6. <u>The cost of a modern equivalent asset will reflect the cost that would be incurred if the works were commissioned on the measurement date. However, there are factors that may result in the cost of a notional replacement being different from that</u></p>	<p>Based on D36-D42 of deleted RC AG</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p><u>of creating the actual asset:</u></p> <p>a. <u>Site preparation</u> – Work that may have been undertaken to prepare the actual site for occupation might not need to be carried out on an assumed equivalent site. An entity might therefore assume that the site being valued is level and serviced and ready for development.</p> <p>b. <u>Phasing of work</u> – A large site may have been developed in phases. The cost of a modern equivalent asset would normally be based on a single phase development, and this should be measured at the building cost at the measurement date. To reflect the assumption that a public entity cannot identify borrowing costs (the cost of capital) that relate to the construction of a specific asset, an entity should assume that the construction has happened ‘instantly’. As a consequence, it follows that there will be no phasing of payments, and there will be no reflection of the cost of capital in the valuation.</p> <p>c. <u>Optimal working conditions</u> – In situations where there is no locational requirement for the asset (see paragraph 0), abnormal working conditions at the actual site are ignored if an alternative site is being valued.</p> <p>d. <u>Additional costs arising from extending an existing property</u> – These costs should be ignored, since the norm is that the valuation will be of a modern equivalent asset.</p> <p>a-e. <u>Contract variations</u> – Additional construction costs because of design or specification changes should be ignored. The modern equivalent asset being valued will have the same service potential as the existing asset.</p> <p>b-f. <u>Planning changes</u> – Entities should consider whether planning consent would need to be obtained were the modern equivalent asset to be constructed on the actual site.</p>	
<p>Paragraph E7 is new (See Agenda Item 7.2.16)</p> <p>Paragraph E7 was updated based on comments received on RC. The example did not clarify the principle (see Agenda Item 7.2.25)</p>	<p><u>Restrictions on the Sale or Use of the Non-Financial Asset</u></p> <p>E2-E7. The entity should also consider any factors that might affect the cost of replacing the service potential of the existing asset. The existing use of the asset will be considered in the light of environmental issues such as the present and future characteristics of the location in terms of, for example, forecast demographic changes; local planning policies; national planning policies; existing restrictions on the use of the land and/or buildings; any restrictions on the sale or use of the land and/or buildings.</p>	<p>Based on D22 of deleted RC AG</p>
	<p><u>The Location of the Asset</u></p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph E8 is new (See Agenda Item 7.2.16)	<u>E8.</u> If there is no locational requirement for the asset, the asset's current cost may assume that the notional replacement will be situated on an alternative site which can provide the same service potential in a more cost effective way. However, the location of an asset may impact its current cost in situations where a social policy decision has been made requiring the asset to be located in a specific location.	Based on D4 of deleted RC AG
Paragraph E9 is new (See Agenda Item 7.2.16)	<u>E9.</u> For example, schools and hospitals will ideally be located within the communities they serve; and local authority offices will be easily accessible to all citizens. The land on which these schools, hospitals or offices are built might be in expensive inner-city sites or in town and city centers. Where a social policy decision has been made requiring the asset be located in a specific location, the current cost of the land is based on the current value of the existing site, rather than on cheaper land located further away from the communities they serve.	Based on D5 of deleted RC AG
	<u>Unit of Measurement</u>	
Paragraph E10 is new (See Agenda Item 7.2.16)	<u>E10.</u> The asset measured at current cost might be either of the following: (a) A stand-alone asset (e.g., an item of property, plant, and equipment); or (a)(b) A group of assets or a group of assets and liabilities (e.g., a cash-generating unit or an operation).	Based on A4 of FV AG for consistency
Paragraph E11 is new (See Agenda Item 7.2.16)	<u>E3-E11.</u> Whether the asset is a stand-alone asset, a group of assets or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset shall be determined in accordance with the IPSAS that requires or permits the current cost measurement, except as provided in this Application Guidance.	Based on A5 of FV AG for consistency
	<u>The Most Economic Manner to Replace the Service Potential of the Asset</u>	
Paragraph E12 is new (See Agenda Item 7.2.16)	<u>E4-E12.</u> A current cost measure assumes the service potential of the asset is replaced in the least costly manner.	Based on D23 of deleted RC AG
Paragraph E13 is new (See Agenda Item 7.2.16)	<u>E5-E13.</u> An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner of replacing an asset's service potential, but it shall consider all information that is reasonably available. In the absence of evidence to the contrary, because entities usually acquire their assets by the most economic means available, current cost reflects the process that an entity generally follows.	Based on D26 of deleted RC AG

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph E14 is new (See Agenda Item 7.2.16)	E6-E14. <u>Current cost reflects the replacement of service potential in the ordinary course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event.</u>	Based on D26 of deleted RC AG
	<u>Entity-Specific Value</u>	
Paragraph E15 is new (See Agenda Item 7.2.16)	E7-E15. <u>An entity shall measure the current cost of an asset using the assumptions from the entity's perspective, assuming that entity acts in accordance with its public sector objective. These assumptions include:</u> a. <u>The service potential of the asset; and</u> b. <u>The intended use of the asset.</u>	Based on A13 of FV AG for consistency Based on D21 of deleted RC AG
Paragraph E16 is new (See Agenda Item 7.2.16)	E8-E16. <u>As an asset's current cost represents an entity-specific entry price to replace the service potential of the asset, transaction costs incurred in acquiring, or that would be incurred in replacing, the asset are included in its determination.</u>	Based on D27 of deleted RC AG
	<u>The Service Potential of the Asset</u>	
Paragraph E17 is new (See Agenda Item 7.2.16)	<u>E17. The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service potential to deal with contingencies. Therefore, the current cost of an asset reflects expected changes in required service potential.</u>	Based on D11 of deleted RC AG
Paragraph E18 is new (See Agenda Item 7.2.16)	<u>E18. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for the current and reasonably foreseeable requirements, the current cost of the asset is that of a school for 100 pupils.</u>	Based on D12 of deleted RC AG
	<u>The Intended Use of the Asset</u>	
Paragraph E19 is new (See Agenda Item 7.2.16)	<u>E19. In carrying out an assessment of the current cost of land and built property, it is the use to which the asset has been put that will be the basis of the calculation of the current cost. For example, the current cost of an aircraft hangar that is being used as a storage warehouse will be that of a warehouse. Another example might be where city center land has been designated by the local authority as parkland.</u>	Based on D14 of deleted RC AG
	<u>Current Cost at Initial Recognition</u>	
Paragraph E20 is new (See Agenda Item 7.2.16)	<u>E20. When an asset is acquired in an exchange transaction for that asset, the transaction price is the price paid to acquire the asset (an entry price). In many cases the transaction price will equal the current cost.</u>	Based on A25 of FV AG for consistency
Paragraph E21 is new (See Agenda Item 7.2.16)	<u>E21. When determining whether current cost at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset. For</u>	Based on A29 of FV AG for consistency

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p><u>example, the transaction price might not represent the current cost of an asset at initial recognition if any of the following conditions exist:</u></p> <p>a. <u>The transaction is between related parties.</u></p> <p>b. <u>The transaction takes place under duress or the seller is forced to accept the price in the transaction.</u></p> <p>c. <u>The unit of account represented by the transaction price is different from the unit of account for the asset measured at fair value.</u></p>	
	<u>Measurement Techniques</u>	
Paragraph E22 is new (See Agenda Item 7.2.16)	<u>E22. In some cases, current cost cannot be determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available only for new assets, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.</u>	Based on IASB Conceptual Framework 6.22
Paragraph E23 is new (See Agenda Item 7.2.16)	<u>E23. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current cost, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</u>	Based on A31 of FV AG for consistency Based on D24 of deleted RC AG
Paragraph E24 is new (See Agenda Item 7.2.16)	<u>E24. The objective of using a measurement technique is to estimate the cost of an equivalent asset at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs E26–E33. An entity shall use measurement techniques consistent with one or more of those approaches to measure current cost.</u>	Based on A32 of FV AG for consistency
Paragraph E25 is new (See Agenda Item 7.2.16)	<u>E25. If multiple measurement techniques are used to measure current cost, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current cost measurement is the point within that range that is most representative of current cost in the circumstances.</u>	Based on A33 of FV AG for consistency
	<u>Market Approach</u>	
Paragraph E26 is new (See Agenda Item 7.2.16)	<u>E26. Applying the market approach to measure the current cost of an asset or consideration that would be received requires the existing of market transactions involving identical or comparable assets or liabilities.</u>	Based on A34 of FV AG for consistency
Paragraph E27 is new (See Agenda Item 7.2.16)	<u>E27. In many cases, the current cost of an asset can be established</u>	Based on D29 of

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
7.2.16)	<p>by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. The current cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period.</p>	deleted RC AG
Paragraph E28 is new (See Agenda Item 7.2.16)	<p>E28. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current cost of an asset using the market approach and asset with an identical or similar remaining useful life, service potential, etc. must be identified. This is often the case when a similar asset was recently constructed to the asset being valued.</p>	-
	<p>Cost Approach</p>	
Paragraph E29 is new (See Agenda Item 7.2.16)	<p>E29. There are several examples in the public sector of assets whose specifications are such that there are few (if any) similar assets whose current cost can be assessed in the advantageous market.</p>	Based on D15 of deleted RC AG
Paragraph E30 is new (See Agenda Item 7.2.16)	<p>E30. Applying the cost approach to estimate current cost shall take into account the attributes of the current cost measurement basis.</p>	-
	<p>The Condition of the Asset</p>	
Paragraph E31 is new (See Agenda Item 7.2.16)	<p>E31. The current cost of a modern equivalent asset is adjusted by making deductions for physical obsolescence, functional obsolescence, and economic obsolescence (see paragraphs E5), which are also used to assist in determining the useful economic life of the asset.</p>	Based on D6 of deleted RC AG
	<p>Income Approach</p>	
Paragraph E32 is new (See Agenda Item 7.2.16)	<p>E32. Applying the income approach to estimate current cost shall take into account the attributes of the fair value measurement basis. This includes:</p> <ul style="list-style-type: none"> a. Estimates of future cash flows. b. Possible variations in the estimated amount or timing of future cash flows for the asset being measured, caused by the uncertainty inherent in the cash flows. c. The time value of money. d. The price for bearing the uncertainty inherent in the cash flows (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset that has uncertain cash flows than for an asset whose cash flows are certain. 	Based on the IASB Conceptual Framework

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.	
Paragraph E33 is new (See Agenda Item 7.2.16)	E33. Paragraphs IG1–IG18 describe the use of present value techniques to measure current cost. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure current to the techniques discussed. The present value technique used to measure current cost will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.	Based on A45 of FV AG for consistency

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Appendix F: Value in Use—application guidance <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
	Measurement	
Paragraph F1 is added to provide guidance on new measurement basis – value in use See Agenda Item 7.2.17.	<u>F1. The objective of a value in use measurement is to estimate the value of an asset based on economic benefit it generates while the entity will continue to use the asset in its operations, and the net amount the entity will receive from its disposal at the end of its useful life. A value in use measurement requires an entity to determine all the following:</u> a. <u>The particular asset that is the subject of the measurement (consistently with its unit of account).</u> b. <u>The entity-specific expected cash flows from continued operations.</u> c. <u>Expected disposal proceeds.</u> a-d. <u>The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs when pricing the asset.</u>	Based on B1 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
	The Asset	
Paragraph F2 is new See Agenda Item 7.2.17.	F2. <u>A value in use measurement is for a particular asset. Therefore, an entity takes into account characteristics of the particular asset relevant in determining its value in use at the measurement date. Such characteristics include, for example, the following:</u> a. <u>The economic benefit the asset provides for the entity; and</u> a-b. <u>The entity's expectations about the amount and timing of those economic benefits.</u>	Based on B2 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
Paragraph F3 is new See Agenda Item 7.2.17.	F3. <u>The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the specific entity.</u>	Based on B3 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
Paragraph F4 is new See Agenda Item 7.2.17.	F4. <u>The asset measured at its value in use might be either of the following:</u> a. <u>A stand-alone asset (e.g., an item of property, plant, and equipment); or</u> b. <u>A group of assets (e.g., a cash-generating unit or an</u>	Based on B4 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<u>operation).</u>	
Paragraph F5 is new See Agenda Item 7.2.17.	<u>F5. The calculation of value in use can be complex. Assets that are employed in cash-generating activities often provide cash flows jointly with other assets. In such cases value in use can be estimated only by calculating the present value of the cash flows of a group of assets and then making an allocation to individual assets</u>	IPSASB CF 7.66
Paragraph F6 is new See Agenda Item 7.2.17.	<u>F4.F6. Whether the asset is a stand-alone asset or a group of assets for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset shall be determined in accordance with the IPSAS that requires or permits the value in use measurement, except as provided in this Application Guidance.</u>	Based on B5 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
	<u>The Entity-Specific Expected Cash Flows from Continued Operations and Disposal</u>	
Paragraph F7 is new See Agenda Item 7.2.17.	<u>F5-F7. The value in use represents the current value of the asset's future economic benefits. This may be based on the future cash inflows related to the asset, or on cost savings that will accrue to the entity through its control of the asset. The calculation of value in use takes into account the time value of money and, in principle, the risk of variations in the amount and timing of cash flows.</u>	IPSASB CF 7.65
Paragraph F8 is new See Agenda Item 7.2.17.	<u>F8. Where the value in use depends on uncertain future events, all possible outcomes are taken into account in the estimated value in use, which aims to reflect all those possible outcomes in an unbiased manner.</u>	Based on B18 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
	<u>Entity-Specific Value</u>	
Paragraph F9 is new See Agenda Item 7.2.17.	<u>F6-F9. The value in use is an entity specific value. An entity shall measure the value in use of an asset using the assumptions from the entity's perspective, assuming the entity acts in accordance with its own public sector objective.</u>	Based on B12 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
Paragraph F10 is new See Agenda Item 7.2.17.	<u>F7-F10. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the asset, considering factors specific to all the following:</u> a. <u>The asset;</u> b. <u>The entity's expectations about the amount and timing of future economic benefits; and</u>	Based on B13 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	c. <u>The time value of money.</u>	
Paragraph F11 is new See Agenda Item 7.2.17.	F8 .F11. <u>When estimating market-based assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those and entity uses itself.</u>	Based on B14 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
	<u>Continued Operations</u>	
Paragraph F12 is new See Agenda Item 7.2.17.	F9 .F12. <u>A value in use measurement shall incorporate the future inflows of resources the entity expects to receive assuming the asset is continued to be used for operational purposes. The inflows of resources are based on the entity's use of the asset to satisfy its own public policy objectives. How another entity may use the asset is not considered when measuring the value of the asset's continued use.</u>	Based on IPSASB CF 7.65
Paragraph F13 is new See Agenda Item 7.2.17.	F10 .F13. <u>Where the asset is expected to be used for an extended period, the cash flows need to be discounted to reflect the time value of the money. As a practical expedient, an entity need not discount the value of the future inflows of resources if the entity expects the asset to be settled within one year.</u>	Based on B19 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
	<u>Expected Disposal Proceeds</u>	
Paragraph F14 is new See Agenda Item 7.2.17.	F14. <u>The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.</u>	IPSAS 26.65
Paragraph F15 is new See Agenda Item 7.2.17.	F15. <u>The price used to measure the value in use of the asset shall not be adjusted for transaction costs incurred to enter into the transaction. Entry-based transaction costs have no impact on the expected disposal proceeds. In contrast, transaction costs that are expected to be incurred, or exit-based, in selling the asset are a future outflow of resources that is relevant in measuring the current value of the asset and are included in measuring the value in use.</u>	Based on B17 of cost of settlement AG for consistency (VIU is assets / CoS is liabilities)
Paragraph F16 is new See Agenda Item 7.2.17.	F16. <u>The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs to sell, except that, in estimating those net cash flows:</u> <u>(a) An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of</u>	IPSAS 26.66

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p><u>their useful life and have operated under conditions similar to those in which the asset will be used; and</u></p> <p><u>(b) The entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.</u></p>	
<p><i>Paragraph F17 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>Measurement Techniques</u></p> <p>F11.<u>F17.</u> <u>An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data is available to measure the value in use. The value in use reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those and entity uses itself.</u></p>	<p><i>Based on A31 of fair value AG for consistency</i></p>
<p><i>Paragraph F18 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p>F12.<u>F18.</u> <u>The objective of using a measurement technique is to estimate the economic benefits, including those received on disposal, the entity expects to receive at the measurement date under current market conditions. The most commonly used valuation approach when measuring the value in use is an income approach. The main aspects of that approach as it relates to the value in use are summarized in paragraphs F19–F44.</u></p>	<p><i>Based on A32 of fair value AG for consistency</i></p>
	<p><u>Cost Approach (PLACEHOLDER)</u></p>	
	<p><u>Placeholder for cost approach. IPSASB decision on whether VIU is applied to measure service potential – in IPSAS 21 – will drive whether a cost approach technique is necessary. See Agenda Item 7.2.17</u></p>	
<p><i>Paragraph F19 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>Income Approach</u></p> <p><u>F19. Applying the income approach to estimate the value in use shall take into account the attributes of the value in use measurement basis. This includes:</u></p> <ul style="list-style-type: none"> <u>a. An estimate of the future cash flows the entity expects to derive from the asset.</u> <u>b. Expectations about possible variations in the amount or timing of those future cash flows.</u> <u>c. The time value of money, represented by the current market risk-free rate of interest.</u> <u>d. The price for bearing the uncertainty inherent in the asset.</u> 	<p><i>Based on A43 of fair value AG for consistency</i></p> <p><i>Attributes based on IPSAS 26.43</i></p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<p><i>Paragraph F20 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>a-e. Other factors that impact the value of the asset.</u></p> <p><u>F13-F20. Paragraphs IG1–IG18 describe the use of present value techniques to measure the value in use. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the value in use to the techniques discussed. The present value technique used to measure the value in use will depend on facts and circumstances specific to the asset being measured and the availability of sufficient data.</u></p>	<p><i>Based on A45 of fair value AG for consistency</i></p>
<p><i>Paragraph F21 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>F21. Estimating the value in use of an asset involves the following steps:</u></p> <p><u>a. Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and</u></p> <p><u>a-b. Applying the appropriate discount rate to those future cash flows.</u></p>	<p>IPSAS 26.44</p>
<p><i>Paragraph F22 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>F14-F22. The elements identified in paragraph F19(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes. Paragraphs G1–G18 provides additional guidance on the use of present value techniques in measuring an asset's value in use.</u></p>	<p>IPSAS 26.45</p>
<p><i>Paragraph F23 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>Basis for Estimates of Future Cash Flows</u></p> <p><u>F23. In measuring value in use, an entity shall:</u></p> <p><u>(a) Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;</u></p> <p><u>(b) Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and</u></p> <p><u>(c) Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by</u></p>	<p>IPSAS 26.46</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p><u>extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.</u></p>	
<p><i>Paragraph F24 is new</i> See Agenda Item 7.2.17.</p>	<p><u>F15-F24. Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided that the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.</u></p>	<p>IPSAS 26.47</p>
<p><i>Paragraph F25 is new</i> See Agenda Item 7.2.17.</p>	<p><u>F16-F25. Detailed, explicit, and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable, and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.</u></p>	<p>IPSAS 26.48</p>
<p><i>Paragraph F26 is new</i> See Agenda Item 7.2.17.</p>	<p><u>F17-F26. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts, using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.</u></p>	<p>IPSAS 26.49</p>
<p><i>Paragraph F27 is new</i> See Agenda Item 7.2.17.</p>	<p><u>F18-F27. When conditions are favorable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.</u></p>	<p>IPSAS 26.50</p>
<p><i>Paragraph F28 is new</i> See Agenda Item 7.2.17.</p>	<p><u>F19-F28. In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful</u></p>	<p>IPSAS 26.51</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<u>life of the asset.</u>	
	Composition of Estimates of Future Cash Flows	
Paragraph F29 is new See Agenda Item 7.2.17.	<u>F29. Estimates of future cash flows shall include:</u> <u>(a) Projections of cash inflows from the continuing use of the asset;</u> <u>(b) Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and</u> <u>(c) Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.</u>	IPSAS 26.52
Paragraph F30 is new See Agenda Item 7.2.17.	<u>F20-F30. Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).</u>	IPSAS 26.53
Paragraph F31 is new See Agenda Item 7.2.17.	<u>F24-F31. Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.</u>	IPSAS 26.54
Paragraph F32 is new See Agenda Item 7.2.17.	<u>F22-F32. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.</u>	IPSAS 26.55
Paragraph F33 is new See Agenda Item 7.2.17.	<u>F33. To avoid double-counting, estimates of future cash flows do not include:</u> <u>(a) Cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and</u> <u>(b) Cash outflows that relate to obligations that have been recognized as liabilities (for example, payables, pensions, or provisions).</u>	IPSAS 26.56
Paragraph F34 is new See Agenda Item 7.2.17.	<u>F34. Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to</u>	IPSAS 26.57

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p><u>arise from:</u></p> <p><u>(a) A future restructuring to which an entity is not yet committed; or</u></p> <p><u>(b) Improving or enhancing the asset's performance.</u></p>	
<p><i>Paragraph F35 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>F35. Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:</u></p> <p><u>(a) Future cash outflows or related cost savings (for example, reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or</u></p> <p><u>(b) Future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.</u></p>	<p>IPSAS 26.58</p>
<p><i>Paragraph F36 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>F36. A restructuring is a program that is (a) planned and controlled by management, and (b) materially changes either the scope of the entity's activities or the manner in which those activities are carried out. IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, contains guidance clarifying when an entity is committed to a restructuring.</u></p>	<p>IPSAS 26.59</p>
<p><i>Paragraph F37 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>F37. When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:</u></p> <p><u>(a) Its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and</u></p> <p><u>(b) Its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with IPSAS 19.</u></p>	<p>IPSAS 26.60</p>
<p><i>Paragraph F38 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>F38. Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits or service potential associated with the expected cash outflow.</u></p>	<p>IPSAS 26.61</p>
<p><i>Paragraph F39 is new</i></p> <p>See Agenda Item 7.2.17.</p>	<p><u>F39. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits or service potential expected to arise from the asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of</u></p>	<p>IPSAS 26.62</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<u>components with shorter lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.</u>	
Paragraph F40 is new See Agenda Item 7.2.17.	<u>F40. Estimates of future cash flows shall not include:</u> <u>(a) Cash inflows or outflows from financing activities; or</u> <u>(b) Income tax receipts or payments.</u>	IPSAS 26.63
Paragraph F41 is new See Agenda Item 7.2.17.	<u>F41. Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also determined on a pre-tax basis.</u>	IPSAS 26.64
Paragraph F42 is new See Agenda Item 7.2.17.	<u>Discount Rates</u> <u>F42. The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:</u> <u>(a) The time value of money, represented by the current risk-free rate of interest; and</u> <u>(b) The risks specific to the asset for which the future cash flow estimates have not been adjusted.</u>	IPSAS 26.68
Paragraph F43 is new See Agenda Item 7.2.17.	<u>F43. A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing, and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.</u>	IPSAS 26.69
Paragraph F44 is new See Agenda Item 7.2.17.	<u>F44. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The Application Guidance provides additional guidance on estimating the discount rate in such circumstances.</u>	IPSAS 26.70

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	<p>Basis for Conclusions</p> <p><i>This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS XX (ED 77).</i></p>	
<p>Paragraph BC1 is IED.BC1</p>	<p>Introduction</p> <p><i>The Purpose of Measurement in Public Sector Financial Statements</i></p> <p>BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities that users need for accountability and decision-making. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as:</p> <ul style="list-style-type: none"> (a) Whether the entity provided its services to constituents in an efficient and effective manner; (b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use; (c) To what extent the burden on future-year taxpayers of paying for current services has changed; and (d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year. 	
<p>Paragraph BC2 is IED.BC2</p>	<p>Service Delivery Objective and Public Sector Assets and Liabilities</p> <p>BC2. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, in the public sector the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities is specialized—for example, roads and military assets. There may be a limited market for specialized assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.</p>	
<p>Paragraph BC3 is IED.BC3</p>	<p>BC3. Another common feature of public sector assets is that they have restrictions on their use, which need to be taken into account when measurement aims to derive a value that reflects existing use. Measurement issues</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	arise even where there are no restrictions and the aim is to reflect an asset's highest and best use.	
Paragraph BC4 is IED.BC4	BC4. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.	
Paragraph BC5 is IED.BC5	BC5. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation.	
Paragraph BC6 is IED.BC6	Measurement of Assets and Liabilities for Financial Reporting by Public Sector Entities BC6. Chapter 7 of <i>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In developing Chapter 7 the IPSASB took into account the special characteristics of the public sector, the needs of users, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.	
Paragraph BC7 is IED.BC7	BC7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.	
Paragraph BC8 is IED.BC8	BC8. The objective of measurement and the measurement bases in Chapter 7 of the Conceptual Framework address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows. The objective of measurement is:	
Paragraph BC9 is IED.BC9	BC9. To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	purposes.	
Paragraph BC10 is IED.BC10	<p>Relationship Between ED, Measurement and Other IPSASs</p> <p>BC10. During development of this ED the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one Standard, in order to provide a comprehensive “one stop shop”. However, the IPSASB concluded that other IPSAS should address impairment, depreciation, amortization, and any specific measurement requirements relating to the assets or liabilities covered by the IPSAS, for example the measurement of intangible assets or of employee benefit liabilities. IPSAS, <i>Measurement</i>, should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework and fair value. The aim is to support consistent application of measurement bases referred to in other IPSAS.</p>	
Paragraph BC11 is IED.BC11	<p>BC11. The IPSASB decided to develop application guidance for the following four measurement bases: fulfillment value, fair value, historical cost, and replacement cost, because the greater need for application guidance relates to these four measurement bases. Appendices with application guidance on other measurement bases may be added in the future.</p>	
Paragraph BC12 is IED.BC12	<p>Application Guidance on Fair Value</p> <p>BC12. This ED has application guidance for the fair value measurement basis. During development of this ED the IPSASB considered whether the fair value measurement basis was relevant to measuring assets and liabilities held by public sector entities. The IPSASB concluded that: there are assets and liabilities held by public sector entities, which should be measured at fair value; and, the term “fair value” should have the same meaning as that established by IFRS 13, <i>Fair Value Measurement</i>.</p>	
Paragraph BC13 is IED.BC13	<p>BC13. In reaching these two conclusions the IPSASB noted that there are references to fair value throughout IPSAS, however the IPSAS definition of fair value is derived from a pre-IFRS 13 definition. IFRS 13 defines fair value as an exit value, as follows: <i>Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.</i></p>	
Paragraph BC14 is IED.BC14	<p>BC14. The IPSASB’s Conceptual Framework does not include fair value in its list of measurement bases, because the IPSASB considered that the IFRS 13 meaning of fair value would not be appropriate for many public sector assets and liabilities, because it is an exit value. However, during development of this ED the IPSASB’s work on financial instruments has demonstrated that an exit-based definition of fair value is relevant for many financial instruments and more generally assets held for</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	financial rather than operational capacity.	
Paragraph BC15 is IED.BC15	BC15. The IPSASB decided, with support from members of its Consultative Advisory Group (CAG), that if the term “fair value” continues to be used in IPSAS, the same meaning as that in IFRS 13 should apply. This avoids confusion and supports good quality measurement, when using this measurement basis.	
Paragraph BC16 is IED.BC16	BC16. In June 2018 the IPSASB approved IPSAS 41, <i>Financial Instruments</i> , which is an IFRS-aligned IPSAS. IPSAS 41 identifies fair value as a measurement basis applicable to financial instruments. The IPSASB had already decided, in September 2017, that the Measurement project should allow for measurement at fair value, with the issue being one of how to integrate the IFRS 13 definition of fair value into IPSAS. The IPSASB decided that IPSAS, <i>Measurement</i> , should include the majority of IFRS 13 text to ensure that its definition of fair value would be consistent with that in IFRS 13, and adequately support IPSAS 41’s requirements with respect to measurement of financial instruments at fair value. On that basis the ED’s appendix with fair value application guidance has reproduced the majority of IFRS 13 text and aims to ensure that the ED’s definition of fair value is the same as that established in IFRS 13.	
Paragraphs BC17 to BC20 are added by IPSASB decision in June 2020 (Agenda Item 7.2.3).	<p><u>Use of Fair Value throughout IPSAS</u></p> <p>BC17. A review of existing IPSAS was performed to determine whether the updated fair value was applicable in IPSAS where legacy fair value was applied. The IPSASB considered the components of the IFRS 13 definition of fair value to identify the key indicator or indicators of the appropriateness of fair value. The IPSASB concluded that exit vs. entry distinction is not useful in selecting measurement bases (see [PLACEHOLDER: insert reference to John’s BC for Jun’20 Agenda 6.2.8 where Board made decision that <i>Selection of measurement bases should be linked to the measurement objective (especially financial capacity / operational capacity) rather than to entry/exit values</i>]). One member noted that some jurisdictions considered specialized vs. non-specialized distinction to be useful in considering whether fair value is an appropriate measurement basis. The IPSASB concluded that while the specialization of an asset is a useful distinction and a component of the definition of fair value, is it not a clear determinant when assessing the appropriateness of fair value. Rather, members agreed that an entity’s intent to hold the asset or liability for either financial or operational capacity is the clearest indicator, and the analysis focused primarily on this primary measurement objective. The IPSASB concluded that fair value is an appropriate measurement basis when the asset is held or the liability incurred primarily for its financial capacity.</p> <p>BC18. Members also cautioned against a “blanket approach” of fair value appropriateness by Standard, as there may</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	<p><u>be instances where the use of fair value appropriateness may differ by reporting entity in a consolidation, or where a cash generating or non-cash generating asset may have hybrid measurement objectives. It is important to consider transaction and entity-specific considerations within each IPSAS when selecting measurement bases.</u></p> <p><u>BC19. The IPSASB concluded that:</u></p> <ul style="list-style-type: none"> <u>(a) Use of the term fair value is appropriate, i.e. consistent with the IFRS 13-based definition to be included in the Conceptual Framework and Measurement, in IPSAS 16, 27, 34, 39, and 41;</u> <u>(b) Use of the term fair value is inappropriate in IPSAS 32 and will need to be replaced in accordance with the consolidated guidance in ED Measurement; and</u> <u>(c) Use of the term fair value is appropriate in certain situations in IPSAS 33 and 36.</u> <p><u>BC20. The IPSASB concluded that the need for consequential amendments will be decided on a case by case basis in accordance with ED, Measurement.</u></p>	
<p>Paragraph BC21 was added to indicate which IFRS 13 paragraphs have been excluded (see agenda item x.2.13)</p>	<p><u>BC21. As noted in BC10, guidance in IPSAS, Measurement, is generic in nature. As such specific measurement guidance in IFRS 13 has been located in the applicable IPSAS. For example:</u></p> <ul style="list-style-type: none"> <u>(a) IFRS 13 paragraphs 34-56 and 70-71 are specific to measuring financial instruments and have been added to IPSAS 41, Financial Instruments.</u> 	
<p>Paragraph BC22 is IED.BC17</p>	<p>Objective (paragraph 1)</p> <p><u>BC17-BC22.</u> ED XX's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which measurement bases should be used in IPSASs. The ED's objective refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.</p>	
<p>Paragraph BC23 is IED.BC18</p>	<p>Scope and definitions (paragraphs 2–3)</p> <p><u>BC18-BC23.</u> ED XX's scope conveys that the Standard's definitions of measurement bases and related application guidance applies when another IPSAS requires measurement using one of the defined measurement bases. As part of its scoping decision, the IPSASB considered whether the ED should include guidance on the measurement of assets held for sale, as envisioned in IFRS 5, <i>Non-Current Assets Held for Sale and Discontinued Operations</i>. The IPSASB noted that the issues relating to the measurement of assets held for sale are similar to those relating to the measurement of impaired assets, which is outside the scope of the project. Therefore, it was decided that the measurement of assets held for sale should also be</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	excluded.	
Paragraph BC24 is IED.BC19	<p>Subsequent Measurement Depreciation and Amortization</p> <p>BC19-BC24. Depreciation is a charge for the consumption of an asset over its useful life. ED XX does not address depreciation. Requirements and guidance on depreciation are provided at standards-level. For example, IPSAS 17, <i>Property, Plant and Equipment</i>, addresses:</p> <ul style="list-style-type: none"> (a) The unit of account for depreciation, (b) The recognition of depreciation, (c) The point at which depreciation of an asset begins, (d) The relationship between economic and useful lives, (e) The circumstances under which land may be depreciated, (f) Depreciation methods, and (g) The relationship between the revenue generated by an asset and depreciation. 	
Paragraph BC25 is IED.BC20	<p>BC20-BC25. Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level, and ED XX does not address amortization. IPSAS 31, <i>Intangible Assets</i>, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.</p>	
Paragraph BC26 is IED.BC21	<p>BC21-BC26. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example IPSAS 17 requires that assets on the revaluation model with useful lives are depreciated. IPSAS 16, <i>Investment Property</i>, does not require depreciation of an investment property that is measured in accordance with the fair value model subsequent to initial recognition. IPSAS 31 does not permit amortization of an asset that is classified as held for sale.</p>	
Paragraph BC27 is IED.BC22	<p>Use of the Historical Cost Model or Revaluation Model</p> <p>BC22-BC27. The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB discussed whether ED, <i>Measurement</i>, should consider the options for measurement subsequent to initial recognition in</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	existing IPSAS with a view to eliminating or reducing those options.	
Paragraph BC28 is IED.BC23	BC23 .BC28. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).	
Paragraph BC29 is IED.BC24	BC24 .BC29. The Conceptual Framework goes on to state that it is not possible to identify a single measurement basis that best meets the measurement objective and acknowledges both historical cost and current value measurements.	
Paragraph BC30 is IED.BC25	<p>BC25.BC30. The IPSASB concluded that:</p> <p>(a) It would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and that</p> <p>(b) Such a step would be outside the scope of this ED, which is to provide requirements and guidance on the definitions and application of measurement bases (i.e., what is meant by each measurement basis and how to derive measurement bases), rather than to specify where they should be used. The latter is a decision for individual standards.</p>	
Paragraph BC31 is IED.BC26	BC26 .BC31. A decision on whether to use historical cost or current value for measurement subsequent to initial recognition is likely to be made by regulator(s) in a particular jurisdiction. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Conceptual Framework Consultation Paper and ED on Measurement advocated the continued widespread use of historical cost, mostly in combination with other measurement bases. Supporters of historical cost referenced the accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.	
Paragraph BC32 is IED.BC27	BC27 .BC32. Conversely those who supported current values, and adopted a view that historical cost should be used as a proxy for current value, linked this view to both decision making and accountability, arguing that the cost of service provision should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price. Some of these views may inform the decisions of regulators.	
Paragraph BC33 is IED.BC28	<p>Financial Instruments Measured at Historical Cost</p> <p>BC28.BC33. The amortized cost of a financial asset or financial liability reflects estimates of future cash flows discounted at a rate that is not updated after initial recognition. For loans given or received, if interest is</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	receivable or payable regularly, the amortized cost of the loan typically approximates the amount originally paid or received. Therefore, the amortized cost of a financial asset or liability is considered to be a form of historical cost.	
	Use of Value in Use Application Guidance	
	BC29-BC34. <u>The IPSASB noted measuring value in use shares many characteristics with fair value measurement when the income approach is applied. The IPSASB concluded a value in use measurement bases was necessary in circumstances where the value in use exceeded the selling price of the asset. In such circumstances, the asset's value to the entity was maximized through the continued provision of services, as opposed to sale. In order to reflect this information to users, a value in use calculation is necessary that resides outside of the fair value income approach, which is only applied when the market approach is not available.</u>	Based on IPSASB CF 7.61
	<u>BC35. Value in use is therefore an appropriate measurement basis for the assessment of certain impairments, because it provides information regarding value of the asset assuming its continued operation.</u>	Based on IPSASB CF 7.62

Implementation Guidance

This guidance accompanies, but is not part of, [draft] ED (X), Measurement.

Section A: Attributes of Measurement Bases

A.1 What are the attributes of each measurement basis

What are the attributes of each measurement basis?

	<u>Fair Value</u>	<u>Current Cost</u>	<u>Cost of Settlement</u>	<u>Value in Use</u>	<u>Historical Cost</u>
<u>Asset Valuation</u>	<u>X</u>	<u>X</u>		<u>X</u>	<u>X</u>
<u>Liability Valuation</u>	<u>X</u>	<u>X</u>	<u>X</u>		<u>X</u>
<u>Exit Value</u>	<u>X</u>		<u>X</u>	<u>X</u>	
<u>Entity Specific</u>		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Market Inputs</u>	<u>X</u>				
<u>Market Participant</u>	<u>X</u>				
<u>Non-Performance Risk</u>	<u>X</u>				
<u>Risk Premium</u>	<u>X</u>				
<u>Current Market Conditions</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	
<u>Principal or most advantageous market</u>	<u>X</u>				
<u>Highest and Best Use</u>	<u>X</u>				
<u>Least costly manner</u>			<u>X</u>		

Section B: Present Value

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph IG1 is IED.A43	IG1. Paragraphs IG2A44–IG18A61 describe the use of present value <u>techniques to measure fair value methods when applied in the income approach measurement technique</u> . Those paragraphs focus on a discount rate adjustment <u>technique method</u> and an expected cash flow (expected present value) <u>technique method</u> . Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value <u>techniques—methods</u> to <u>estimate the</u>	IFRS 13.B1 2

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>measurement basismeasure fair value to the techniques methods discussed. The present value technique method used to estimate the measurement basis measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.</p>	
<p>Paragraph IG2 is IED.A44</p>	<p>B.1 What are the components of a PV measurement?</p> <p>IG2. Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:</p> <ul style="list-style-type: none"> a. An estimate of future cash flows for the asset or liability being measured. b. Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows. c. The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate). d. The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium). e. Other factors that market participants would be taken into account in the circumstances. <ul style="list-style-type: none"> a. For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk. 	<p>IFRS 13. B13</p>
<p>Paragraph IG3 is IED.A45</p>	<p>B.2 What should I take into consideration when using present value?</p> <p>IG3. Present value techniques differ in how they capture the elements in paragraph IG4A44. However, all the following general principles govern the application of any present value technique used to estimate the measurement basismeasure fair value:</p> <ul style="list-style-type: none"> a. Cash flows and discount rates should reflect assumptions that market participantsassociated with the measurement basis being estimated (for example, a fair value measurement includes assumptions a market participant would use when 	<p>IFRS 13.B1 4</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>pricing the asset or liability, <u>while a current cost measurement includes entity specific assumptions when pricing the asset or liability</u>).</p> <p>b. Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.</p> <p>c. To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.</p> <p>d. Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.</p> <p>e. Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.</p>	
<p>Paragraph IG4 is IED.A46</p> <p>Paragraph IG5 is IED.A48</p>	<p><i>Risk and Uncertainty</i></p> <p>IG4. <u>A fair value measurement</u> <u>Estimating a measurement basis</u> using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.</p> <p>IG5. Present value techniques differ in how they adjust for risk and</p>	<p>IFRS 13.B1 5</p> <p>IFRS 13.</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>in the type of cash flows they use. For example:</p> <p>(a) The discount rate adjustment technique (see paragraphs IG6.A49–IG10.A53) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.</p> <p>(b) Method 1 of the expected present value technique (see paragraph IG13.A56) uses risk-adjusted expected cash flows and a risk-free rate.</p> <p>(c) Method 2 of the expected present value technique (see paragraph IG14.A57) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.</p>	B17
	<i>Discount Rate Adjustment Technique</i>	
Paragraph IG6 is IED.A49	<p>IG6. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).</p>	IFRS 13.B18
Paragraph IG7 is IED.A50	<p>IG7. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a ‘build-up’ approach).</p>	IFRS 13.B19
Paragraph IG8 is IED.A51	<p>IG8. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:</p>	IFRS 13.B20

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>(a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent $[(CU1,200/CU1,083) - 1]$.</p> <p>(b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent $[(CU700/CU566)^{0.5} - 1]$.</p> <p>(c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).</p>	
Paragraph IG9 is IED.A52	<p>IG9. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the fair value of Asset A is CU722 $(CU800/1.108)$. Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.</p>	IFRS 13.B2 1
Paragraph IG10 is IED.A53	<p>IG10. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.</p>	IFRS 13. B22
Paragraph IG11 is IED.A54	<p><i>Expected Present Value Technique</i></p> <p>IG11. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is</p>	IFRS 13.B2 3

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).	
Paragraph IG12 is IED.A55	<p>IG12. In making an investment decision, risk-averse-market participantsan entity would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:</p> <p>(a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.</p> <p>(b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.</p> <p>Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)</p>	IFRS 13.B2 4
Paragraph IG13 is IED.A56	<p>IG13. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participantthe entity is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the market participantentity would be indifferent as to the asset held.</p>	IFRS 13.B2 5
Paragraph IG14 is IED.A57	<p>IG14. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.</p>	IFRS 13.B2 6
Paragraph IG15 is	IG15. To illustrate Methods 1 and 2, assume that an asset has	IFRS 13.B2

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source															
IED.A58	<p>expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.</p> <table border="1" data-bbox="509 495 1267 779"> <thead> <tr> <th>Possible cash flows</th><th>Probability</th><th>Probabili</th></tr> </thead> <tbody> <tr> <td>CU500</td><td>15%</td><td>CU75</td></tr> <tr> <td>CU800</td><td>60%</td><td>CU480</td></tr> <tr> <td>CU900</td><td>25%</td><td>CU225</td></tr> <tr> <td>Expected cash flows</td><td></td><td>CU780</td></tr> </tbody> </table>	Possible cash flows	Probability	Probabili	CU500	15%	CU75	CU800	60%	CU480	CU900	25%	CU225	Expected cash flows		CU780	7
Possible cash flows	Probability	Probabili															
CU500	15%	CU75															
CU800	60%	CU480															
CU900	25%	CU225															
Expected cash flows		CU780															
Paragraph IG16 is IED.A59	<p>IG16. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.</p>	IFRS 13.B2 8															
Paragraph IG17 is IED.A60	<p>IG17. In theory, the present value (i.e., the fair value) of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:</p> <p>(a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent (CU780 – [CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of CU758 (CU780 – CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is CU722 (CU758/1.05).</p> <p>(b) Using Method 2, the expected cash flows are not</p>	IFRS 13.B2 9															

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value (i.e., the fair value) of the asset is CU722 (CU780/1.08).</p>	
<p>Paragraph IG18 is IED.A61</p>	<p>IG18. When using an expected present value technique to <u>estimate the measurement basis</u>measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgements applied.</p>	<p>IFRS 13.B30</p>

Addendum A – IFRS 13, Fair Value Measurement, Mapped to IPSAS

Topic	IFRS 13 Reference	ED Measurement Reference	Potentially to be incorporated into the following IPSAS
Objective	1	1	
	2	N/A	N/A, as IFRS 13.2 to 4 only provide a high level summary of the standard
	3	N/A	
	4	N/A	
Scope	5	3	
	6	4	
	7	N/A	N/A, as related to disclosures
	8	5	
Definition of fair value	9	6	
	10	N/A	N/A, as IFRS 13.10 only cross-references to application guidance
The asset or liability	11	A2	
	12	A3	
	13	A4	
	14	A5	
The transaction	15	A6	
	16	A7	
	17	A8	
	18	A9	
	19	A10	
	20	A11	
	21	A12	
Market participants	22	A13	
	23	A14	
The price	24	A15	
	25	A16	
	26	A17	
Highest and best use for non-financial assets	27	A18	
	28	A19	
	29	A20	
	30	A20	
Valuation premise for non-financial assets	31	A22	
	32	A23	
	33	N/A	N/A, as IFRS 13.33 only cross-references to application guidance
Application to liabilities and an entity's own equity	34	N/A	IPSAS 41
	35	N/A	IPSAS 41

- General principles	36	N/A	IPSAS 41
Liabilities and equity instruments held by other parties as assets	37	N/A	IPSAS 41
	38	N/A	IPSAS 41
	39	N/A	IPSAS 41
Liabilities and equity instruments not held by other parties as assets	40	N/A	IPSAS 41
	41	N/A	IPSAS 41
Non-performance risk	42	N/A	IPSAS 41
	43	N/A	IPSAS 41
	44	N/A	IPSAS 41
Restriction preventing the transfer of a liability or own equity	45	N/A	IPSAS 41
	46	N/A	IPSAS 41
Financial liability with a demand feature	47	N/A	IPSAS 41
Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk	48	N/A	IPSAS 41
	49	N/A	IPSAS 41
	50	N/A	IPSAS 41
	51	N/A	IPSAS 41
	52	N/A	IPSAS 41
Exposure to market rates	53	N/A	IPSAS 41
	54	N/A	IPSAS 41
	55	N/A	IPSAS 41
Exposure to the credit risk of a particular counterparty	56	N/A	IPSAS 41
Fair value at initial recognition	57	A25	
	58	A26	
	59	A27	
	60	A28	
Valuation techniques	61	A31	
	62	A32	
	63	A33	
	64	29	CORE
	65	30	CORE
	66	31	CORE
Inputs to valuation techniques - General principles	67	A47	
	68	A49	
	69	A50	
Inputs based on bid and ask prices	70	N/A	IPSAS 41
	71	N/A	IPSAS 41
Fair value hierarchy	72	A51	
	73	A52	
	74	A53	
	75	A54	
Level 1 inputs	76	A55	
	77	A56	

	78	A57	
	79	A58	
	80	A59	
Level 2 inputs	81	A60	
	82	A61	
	83	A62	
	84	A63	
	85	A65	
Level 3 inputs	86	A66	
	87	A67	
	88	A68	
	89	A80	
	90	A81	
Disclosure	91	N/A	Disclosure will be addressed on an IPSAS by IPSAS basis
	92	N/A	
	93	N/A	
	94	N/A	
	95	N/A	
	96	N/A	
	97	N/A	
	98	N/A	
	99	N/A	
Defined terms	Appendix A	6	
Application guidance (introduction)	B1	N/A	Introductory paragraph only
The fair value measurement approach	B2	A1	
Valuation premise for non-financial assets	B3	A24	
Fair value at initial recognition	B4	A29	
Valuation techniques - Market approach	B5	32	
	B6	A34	
	B7	A35	
Cost approach	B8	33	
	B9	A37	
Income approach	B10	35	
	B11	A44	
Present value techniques	B12	A45	
The components of a present value measurement	B13	IG2	
The components of a present value measurement - General principles	B14	IG3	
Risk and uncertainty	B15	IG4	
	B16	A46	

	B17	IG5	
Discount rate adjustment technique	B18	IG6	
	B19	IG7	
	B20	IG8	
	B21	IG9	
	B22	IG10	
Expected present value technique	B23	IG11	
	B24	IG12	
	B25	IG13	
	B26	IG14	
	B27	IG15	
	B28	IG16	
	B29	IG17	
	B30	IG18	
Applying present value techniques to liabilities and an entity's own equity instruments not held by other parties as assets	B31	N/A	IPSAS 41
	B32	N/A	IPSAS 41
	B33	N/A	IPSAS 41
Inputs to valuation techniques	B34	A49	
Fair value hierarchy - Level 2 inputs	B35	A65	
Level 3 inputs	B36	A82	
Measuring fair value when the volume of level of activity for an asset or a liability has significantly decreased	B37	A69	
	B38	A70	
	B39	A71	
	B40	A72	
	B41	A73	
	B42	A74	
Identifying transactions that are not orderly	B43	A75	
	B44	A76	
Using quoted prices provided by third parties	B45	A77	
	B46	A78	
	B47	A79	
Effective date and transition	C1	47	
	C2	N/A	N/A, as IFRS 13.C2 to C5 deal with transitional provisions and consequential amendments
	C3	N/A	
	C4	N/A	
	C5	N/A	
Amendments to other IFRSs	Appendix D	N/A	

Addendum B – Replacement Cost AG from IED, Mapped to ED

Topic	IED App D Reference	ED Measurement Reference	Notes
Measurement	D1	E1	
The Asset	D2	E2	
	D3	E2	
	D4	E8	
	D5	E9	
	D6	E31	
	D7	-	Specific application of replacement cost to componentization
	D8	-	
	D9	-	
	D10	-	
	D11	E17	
	D12	E18	
	D13	E15	
	D14	E19	
	D15	E29	
	D16	-	Specific application of replacement cost to buildings
	D17	-	
	D18	-	
	D19	-	
	D20	-	
	D21	E15	
	D22	E7	
	D23	E12	
	D24	E23	
Entity-Specific Value	D25	-	Generic entity-specific guidance
	D26	E13	
	D27	E16	
Valuation Techniques	D28	E23	
	D29	E27	
	D30	A38 and E5	
	D31	E5	
	D32	E5	
	D33	E5	
	D34	E5	
	D35	-	Specific to IPSAS 17
Other Valuation Considerations	D36	E6	
	D37	E6	
	D38	E6	
	D39	E6	
	D40	E6	
	D41	E6	
	D42	E6	

Supporting Documents 3 – Table Summarizing Appropriateness of Fair Value in IPSAS (Updated)

1. The following table from June 2020 Agenda Item 7.2.3, which presented preliminary analysis on the appropriateness of fair value in IPSAS, has been updated to include preliminary analysis on the appropriateness of fair value in active projects (EDs 70-72, and ED 78 (IPSAS 17 Update)).

IPSAS	Subtopic using Fair Value	Primary measurement objective	Is fair value appropriate for the subtopic?
IPSAS 1, <i>Presentation of Financial Statements</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 2, <i>Cash Flow Statements</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 4, <i>The Effects of Changes in Foreign Exchange Rates</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 5, <i>Borrowing Costs</i>	Not assessed – term fair value is not used in core text		
IPSAS 6, <i>Consolidated and Separate Financial Statements</i>	Not assessed – Replaced by IPSAS 34 and IPSAS 35		
IPSAS 7, <i>Investments in Associates</i>	Not assessed – Replaced by IPSAS 37		
IPSAS 8, <i>Interests in Joint Ventures</i>	Not assessed – Replaced by IPSAS 37		
IPSAS 9, <i>Revenue from Exchange Transactions</i>	Not assessed – Consider as part of ED70		

IPSAS	Subtopic using Fair Value	Primary measurement objective	Is fair value appropriate for the subtopic?
IPSAS 10, <i>Financial Reporting in Hyperinflationary Economies</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 11, <i>Construction Contracts</i>	Not assessed – Consider as part of ED70		
IPSAS 12, <i>Inventories</i>	Non-exchange transactions	Financial – inventories are held for sale to generate cash flows, or for consumption in production subsequently sold for financial return	Yes
	Agriculture produce harvested (initial measurement upon harvest)	Financial – inventories are held for sale to generate cash flows, or for consumption in production subsequently sold for financial return	Yes
IPSAS 13, <i>Leases</i>	Not assessed – Consider as part of ED62		
IPSAS 14, <i>Events After the Reporting Date</i>	Not assessed – term fair value is not used in core text		
IPSAS 15	Removed formally from 2020 Handbook		
IPSAS 16, <i>Investment Property</i>	Investment properties acquired through non-exchange transaction, non-monetary exchange, or as result of lease	Financial – by definition, the property is held to earn rentals or for capital appreciation (or both), and not for use in production/supply of goods or services, administrative purposes, or sale in ordinary course of operations	Yes
IPSAS 17, <i>Property, Plant, and Equipment</i>	Covered under ED78 / Infrastructure / Heritage projects. PP&E assets are generally held for operational capacity in the public sector, indicating that fair value would not be appropriate. Based on preliminary analysis, staff consider Current Cost to be the most appropriate measurement basis alternative in lieu of fair value. See September 2020 Agenda Item 9.2.6 for staff analysis.		
IPSAS 18, <i>Segment Reporting</i>	Not assessed – term fair value is not used in core text		
IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Not assessed – term fair value is not used in core text		

IPSAS	Subtopic using Fair Value	Primary measurement objective	Is fair value appropriate for the subtopic?
IPSAS 20, <i>Related Party Disclosures</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i>	All	Operational – non-cash generating units are generally held to provide services	No
IPSAS 22, <i>Disclosure of Financial Information about the General Government Sector</i>	Not assessed – term fair value is not used in core text		
IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	To be superseded by ED71		
IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i>	Not assessed – term fair value is not used in core text		
IPSAS 25, <i>Employee Benefits</i>	Replaced by IPSAS 39		
IPSAS 26, <i>Impairment of Cash-Generating Assets</i>	All	Financial – cash-generating units by nature are generally held to generate financial return	Yes
IPSAS 27, <i>Agriculture</i>	Biological assets, (including when acquired through non-exchange transaction)	Financial – biological assets generally held to generate financial return rather than to provide services	Yes
	Agricultural produce at point of harvest ⁴⁴	Financial – agricultural produce at point of harvest are generally to generate financial return as inventory assets	Yes

⁴⁴ Harvested agriculture produce (i.e. subsequent to harvest) becomes IPSAS 12 *Inventories*, or another applicable Standard

IPSAS	Subtopic using Fair Value	Primary measurement objective	Is fair value appropriate for the subtopic?
IPSAS 28, <i>Financial Instruments: Presentation</i>	Not assessed – term fair value is not used in core text		
IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 30, <i>Financial Instruments: Disclosures</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 31, <i>Intangible Assets</i>	Intangible assets acquired through non-exchange transactions, non-monetary exchange, or as part of acquisition	Operational – intangible assets generally are used to provide services	No
IPSAS 32, <i>Service Concession Arrangements: Grantor</i>	Service concession asset provided by operator, or upgrades to existing assets provided by grantor) and related liability (excluding existing assets of grantor ⁴⁵)	Operational – like PP&E, many service concession assets are used to provide public services	No
IPSAS 33, <i>First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)</i>	Deemed cost exemption for specific assets and liabilities (where acquisition cost not available), or assets acquired through non-exchange transaction	Mixed – Assets and liabilities eligible for deemed cost election could be for either operational or financial capacity	Mixed – defer to IPSAS most relevant to in-scope asset/liability

⁴⁵ Existing assets of the grantor than meet definition of service concession asset are to be reclassified and accounted for per IPSAS 17 or IPSAS 31.

IPSAS	Subtopic using Fair Value	Primary measurement objective	Is fair value appropriate for the subtopic?
IPSAS 34, <i>Separate Financial Statements</i>	When entity ceases to be an investment entity	Financial – controlled investments are held to generate financial return immediately prior to the change in status from investment entity to non-investment entity. As such fair value is the most relevant information to reflect these controlled investments in consolidated financial statements moving forward.	Yes
	When entity becomes an investment entity	Financial – by purpose and design, an investment entity has purpose of investing solely for returns from capital appreciation, and/or investment revenue	Yes
IPSAS 35, <i>Consolidated Financial Statements</i>	Change in proportion held by non-controlling interest [non-investment entity]	Financial – change in NCI in a controlled entity reflects an entity's intent to sell part of its share to the NCI for financial return or increase its share for greater financial return OR Operational – change in NCI in a controlled entity may reflect an entity's intent to change its share for the purpose of service provision or strategic initiatives	Mixed
	Loss of control [non-investment entity]	Financial – investments no longer controlled by an entity are inherently held to generate financial return	Yes
IPSAS 36, <i>Investments in Associates and Joint Ventures</i>	Interest in an associate or joint venture that is an investment entity	Financial – investments in associates and joint ventures are inherently held to generate financial return	Yes
	Indicator of impairment of equity instrument of the associate or joint venture	Financial – investments in associates and joint ventures are held to generate financial return OR Operational – Investments in associates and joint ventures may be held for strategic initiatives	Mixed
IPSAS 37, <i>Joint Arrangements</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 38, <i>Disclosure of Interests in Other Entities</i>	Not assessed – fair value is not used in context of measurement guidance specific to this IPSAS		
IPSAS 39, <i>Employee Benefits</i>	Defined Benefit Plan Assets	Financial – like financial instruments, plan assets are held to earn revenues to settle the entity's future obligations to its employees	Yes

IPSAS	Subtopic using Fair Value	Primary measurement objective	Is fair value appropriate for the subtopic?
IPSAS 40, <i>Combinations</i>	Acquisition	Operational – an entity controlled by controlling entity is generally for purposes of strategic initiatives and service provision	No
IPSAS 41, <i>Financial Instruments</i>	Financial Instruments measured at Fair Value	Financial – financial instruments held to generate financial return rather than to provide services	Yes
IPSAS 42, <i>Social Benefits</i>	Not assessed – term fair value is not used in core text		
[ED70] IPSAS XX, <i>Revenue with Performance Obligations</i>	Assessed in active project by Revenue Task Force team. In alignment with IFRS 15, the ED proposes a significant reduction in the use of fair value, with only limited applications at initial measurement. The ED is currently still out for comment. Any comments noting issues with measurement will be addressed as they are received.		
[ED71] IPSAS XX, <i>Revenue without Performance Obligations</i>	Assessed in active project by Revenue Task Force team. Similar to ED 70, the ED is currently still out for comment. Any comments noting issues with measurement will be addressed as they are received.		
[ED72] IPSAS XX, <i>Transfer Expenses</i>	Assessed in active project by Revenue Task Force team. Similar to ED 70, the ED is currently still out for comment. Any comments noting issues with measurement will be addressed as they are received.		
[ED75] IPSAS XX, <i>Leases</i>	Assessed in active project by Leases Task Force team. Fair value is applied in minimal circumstances. For the purposes of ED75, the definition of fair value is amended in alignment with IFRS 16's definition of fair value.		

The Financial Reporting under the Cash Basis of Accounting and the three RPGs were not included in this analysis as they were not relevant nor part of the core IPSAS.

Supporting Documents 4 – Updated Issues Log

1. In June 2020, agenda items were presented in the table below. Staff have updated this table to include September 2020 agenda items. This table is consistent with the agenda items presented above and is consistent with Figure 2 in [Agenda Item 7.2.1](#).
2. This table was provided for consistency with June 2020 and to members could monitor the progress on all issues.

		Issue (agreed in March 2020)		
Agenda Paper	Theme of Paper	Conceptual Framework	Measurement	Board agenda reference
Q2 – June 2020				
Coordinators Report	Project Management	Key issue 1 Scope	-	5.2.1
Approval of Measurement Hierarchy	Model	Key Issue 2 Impact of Revised IASB Measurement Chapter	-	6.2.2
Fair Value & Market Value – Should Market Value be a Measurement Basis?	Bases	Key Issue 4 Relationship Between Market Value and Fair Value	Theme C Conceptual Framework Issues – Fair Value in the Conceptual Framework	6.2.3
What are the Measurement Bases to be Defined in the Conceptual Framework?		Key Issue 3 Fair Value in the Conceptual Framework		6.2.4
Replacement Cost as a Measurement Basis or a Technique		Key Issue 5 Replacement Cost Basis or Technique	Theme C Conceptual Framework Issues – Replacement Cost	6.2.5
Value in Use as a Measurement Basis or Measurement Technique		Key Issue 2 Impact of Revised IASB Measurement Chapter	-	6.2.6
Synergistic or Equitable Value		-	Theme B Conceptual Framework Issues – Synergistic / Equitable Value	6.2.7

		Issue (agreed in March 2020)		
Agenda Paper	Theme of Paper	Conceptual Framework	Measurement	Board agenda reference
The Usefulness of the Distinction Between Entry and Exit Values		Key Issue 2 Impact of Revised IASB Measurement Chapter	-	6.2.8
Measurement Guidance: Placement	Location of guidance	-	Theme B Conceptual Framework Issues – Alignment of Measurement Bases with Conceptual Framework	7.2.2
Applying IFRS 13 FV throughout IPSAS	Application of Measurement Principles	-	Theme D Review of Fair Value in IPSAS	7.2.3
Analysis of Responses (Improvements to Measurement Bases Guidance)		-	Theme F Comments on Measurement Bases	7.2.4 – 7.2.7
Amendments to IPSAS 5, <i>Borrowing Costs</i>		-	Theme A Borrowing Costs	7.2.8
Q3 – September 2020				
Coordinators Report	Project Management	Key issue 1 Scope	-	7.2.1
Cost of Release / Assumption Price	Bases	Key Issue 2 Impact of Revised IASB Measurement Chapter	-	7.2.18 and 7.2.19
Net Selling Price			-	7.2.20
Fulfillment Value / Cost of Fulfillment (which term to use) (risk premium) (lowest amount)			-	7.2.3
Replacement Cost vs Cost Approach - comparison	Techniques	-	-	7.2.11
Current Value Model Measurement Techniques		D&I – 6.2.2	-	7.2.4

		Issue (agreed in March 2020)		
Agenda Paper	Theme of Paper	Conceptual Framework	Measurement	Board agenda reference
Historical Cost Model Measurement Techniques		D&I – 6.2.3	-	7.2.5
Where is MV a technique		D&I – 6.2.4	-	7.2.16
Measurement techniques – what is used for CC		D&I – 6.2.6	-	7.2.7, 7.2.9 and 7.2.13
What is Value in Use		D&I – 7.2.2	-	7.2.17
Presenting measurement techniques in ED, <i>Measurement</i>		D&I – 6.2.5	-	7.2.14
Fair value in IPSAS	Fair Value	-	D&I – 7.2.3	7.2.22, 7.2.23, and 7.3.3
FV – Measurement Basis	Measurement Basis	-	D&I – 7.2.4	7.2.27
Fulfillment Value – Measurement Basis		-	D&I – 7.2.5	7.2.28
Historical Cost – Measurement Basis		-	D&I – 7.2.6	7.2.26
Where is HC guidance coming from		-	D&I - MARCH	7.3.2 (see ED notes column)
Replacement Cost – Measurement Basis		-	D&I – 7.2.7	7.2.25
Borrowing Costs	Borrowing Costs	-	D&I – 7.2.8	Agenda Item 4
[draft] Exposure Drafts	Exposure Drafts	-	-	7.3.1 and 7.3.2
Q4 – October 2020 (Consequentials)				
[draft] Exposure Drafts	Exposure Drafts	Key Issue 11 Communication	Theme H Consequentials	X.X.X

		Issue (agreed in March 2020)		
Agenda Paper	Theme of Paper	Conceptual Framework	Measurement	Board agenda reference
Alternative to Fair Value in IPSAS	Fair Value	-	Theme H Consequential	X.X.X
Application of flowcharts to IPSAS	Flowcharts	-	Theme G Flowcharts	X.X.X
Q4 – December 2020				
[draft] Exposure Drafts	Exposure Drafts	Key Issue 11 Communication	Theme H Consequential	X.X.X
			Theme H Exposure Draft	X.X.X
H1 2021 - Staff will progress the following topics for a second ED to be approved and published in the first half of 2021 (see paragraph 8)				
Capital Maintenance	Other CF Issues	Key Issue 6 Capital Maintenance	-	X.X.X
Definitions of Asset and Liability		Key Issue 7 Definitions of Asset and Liability	-	X.X.X
Unit of Account and Executory Contracts		Key Issue 8 Unit of Account and Executory Contracts	-	X.X.X
Prudence as an Aspect of Neutrality in Faithful Representation		Key Issue 9 Prudence as an Aspect of Neutrality in Faithful Representation	-	X.X.X
Materiality		Key Issue 10 Materiality	-	X.X.X

Unedited Responses – Replacement Cost

Issue Number	Response Number	Issue	Status
RC 1	04	<p>If the IPSASB proceeds to issue application guidance on fair value, it will need to decide how to clearly differentiate between the use of the cost approach to determine fair value and replacement cost as a separate measurement basis. There is a risk of constituents being confused about the use of replacement cost in two contexts. Appendix A (paragraph A39) refers to current replacement cost in the discussion of the cost approach to determining fair value and Appendix D is about replacement cost as a measurement basis in its own right. Although these two terms are very similar they are talking about quite different measures. The cost approach in Appendix A has a different measurement objective to replacement cost as a measurement basis. Different terminology might be one way of avoiding confusion. The IPSASB will also need to clearly indicate in standards when they are referring to replacement cost as a separate measurement basis.</p> <p>In both cases an entity would be using cost information to arrive at a measure for financial reporting, but the measurement objective would determine what costs should be included. IFRS 13 has a specific measurement objective – it discusses the use of the cost approach as a method to estimate fair value as defined in IFRS 13 (which is from the perspective of a market participant seller). Moreover, IFRS 13 is focused on the price that a market participant would be willing to pay to acquire the cash-generating-capacity of the asset, rather than its potential to provide public services (i.e. its service potential).</p> <p>In summary, in order to apply the measurement requirements in IPSAS, constituents will need to know whether the measure is an entry or exit measure and whether it is intended to be entity specific or have a market participant focus. They also need to know whether to focus solely on an asset's potential to generate cash flows or whether to consider an asset's service potential. The distinction between assets held mainly for cash generation and assets held mainly for service potential may be one way of determining when the cost approach (as a method of estimating fair value) versus replacement cost (as a distinct and different measurement basis) are appropriate.</p>	<p>Issue Closed</p> <p>IPSASB decided the measurement hierarchy indicates replacement cost is a measurement technique. Inconsistency no longer exists. See <u>June</u> Agenda Item 6.2.5.</p>
RC 2	04	<p>Comments on using DRC to estimate fair value (as currently defined in IPSAS)</p> <p>IPSAS 17 permits the use of depreciated replacement cost as a means of estimating the fair value of an asset. When the NZASB introduced PBE IPSAS 17 Property, Plant and Equipment it noted that public benefit entities in New Zealand frequently use depreciated replacement cost to estimate the fair value of property, plant and equipment, including infrastructure assets. The NZASB noted that neither IPSAS 17 nor IPSAS 21 Impairment of Non-Cash-Generating Assets provide guidance on this topic at the level of detail</p>	<p>Update Application Guidance as necessary (Q4 2020)</p> <p>Staff has reviewed PBE IPSAS 17 and identified guidance that clearly</p>

		<p>previously provided in NZ IAS 16 Property, Plant and Equipment. The NZASB included additional application guidance on this topic in order to enhance the consistency of asset valuations in financial statements. That guidance addressed specific issues that had arisen in practice.</p> <p>In our view the application guidance that accompanies PBE IPSAS 17 more clearly addresses some of these issues than the proposed guidance in Appendix D. For example, Appendix D doesn't appear to cover the situation where the entity has to do extensive work to get land into a condition suitable for use and that use is specialised. We also note that paragraph D5 refers to "the current value of the existing site" but it isn't clear whether this is (i) the value of the current site, based on the current use or (ii) the highest and best use of that site. The additional guidance in PBE IPSAS 17 drew upon international valuation guidance available when PBE IPSAS 17 was developed.</p> <p>In the interests of developing guidance that works internationally and is consistent with the international valuation standards, we encourage the IPSASB to continue to work with the International Valuation Standards Council.</p>	<p>addresses adjustment to assets in the replacement cost guidance:</p> <ul style="list-style-type: none"> - Obsolescence (physical, functional and external); and <p>Staff are of the view this guidance can further inform the IPSASBs measurement ED in Q4 2020. In Q4 the IPSASB will have addressed conceptual issues, such as the inclusion of parts of the existing RC guidance into the current cost measurement basis, that will allow staff clarify application (which PBE IPSAS 17 can help with).</p>
RC 3	04	<p>The CP proposes to adopt much of the guidance in IFRS 13, including the guidance dealing with the use of the cost approach (also referred to as current replacement cost) as a valuation technique to estimate fair value. It also proposes to provide guidance on replacement cost as a separate measurement basis. If the IPSASB decides that fair value, as defined in IFRS 13, should be acknowledged as a measurement basis appropriate for IPSAS and supported by application guidance, the IPSASB will need to give more detailed consideration to a number of matters. It will need to differentiate between the use of the cost approach under fair value and replacement cost as a separate measurement basis, outline its views on when each would be appropriate and indicate how it intends to give effect to these views in standards, particularly in relation to the revaluation model in IPSAS 17 Property, Plant and Equipment. The CP (paragraph 2.17) does acknowledge that the IPSASB needs to further develop the relationship between replacement cost as a measurement basis and replacement cost as a measurement technique. We believe this work should have been done first and needs to be done before any guidance is finalised</p>	<p>Issue Closed</p> <p>IPSASB decided the measurement hierarchy indicates replacement cost is a measurement technique. Inconsistency no longer exists. See June Agenda Item 6.2.5.</p>
RC 4	06	<p>D5 Location Factors: We believe that this does not adequately explain the approach to be adopted where public services need to be situated in expensive city centre locations and where the value of land, at least superficially, for alternative uses is much higher. When it is stated that the replacement cost of the land is</p>	<p>Issue Closed</p> <p>IPSASB decided the comment is addressed by</p>

		<p>based on the current value of the existing site, does this mean its value for the current use or the current value for an alternative use that would be permitted if the hospital, school etc was not required in this location?</p> <p>Other factors that need exploration in application guidance is the role of any legislation controlling land use, which may have designated city centre land specially for public service uses. This would mean that the highest and best use would be for the designated public service use, not for any alternative higher value uses that may surround it. In other cases, a public service use may not be on a site which has specific legal limitation to that use, perhaps because the use is historic. What assumptions should be made about the cost of acquiring a site for the public service use in that locality under these circumstances?</p> <p>We would submit that, while information about the potential for higher value uses may be material to a public entity for planning and efficient location of future projects, for measuring the value of an existing asset for financial reporting it has little relevance, especially if it means that the value of the land is incompatible with the continuing provision of the public service. An entity needing to replace the remaining service potential would not rationally buy land that had a value for an alternative use in excess of that that could be supported for the existing use.</p> <p>We understand and support the use of the concept of "Replacement Cost" where Fair Value or Historic Cost do not best meet the measurement objective. However, the term "Replacement Cost" fails to convey that this is a current value measure and is too easily confused with an actual cost or the cost of replacing or reinstating if the asset were lost by fire or another hazard.</p> <p>In the UK, the government and other public sector bodies have adopted accounting principles largely based on IFRS but for property owned and occupied for service delivery do not use IFRS Fair Value but an alternative, "Existing Use Value". This was originally developed in the 1990s by the RICS working in conjunction with the former UK Accounting Standards Board for application to owner occupied property in the private sector, although this did not survive the requirement for all listed private entities to adopt IFRS in 2005. However, the public sector clearly considered it was a useful alternative taking into account the problems of applying Fair Value to many types of land and buildings held to deliver a service.</p> <p>Existing Use Value (EUV) meets the broad criteria of Replacement Cost as defined in the Illustrative ED but is more precisely defined as: "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost."</p> <p>It will be noted that the first half of this EUV definition is the same as the IVSC definition of market value, but there are four additional conditions in the italicised section. Examination of these help to understand how</p>	<p>applying the proposed hierarchy. Under the proposed hierarchy, replacement cost is a measurement technique. When RC is used to estimate Fair Value, Highest and Best use is applied. When RC is used to estimate Current Cost, the current use of the asset is considered.</p>
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		<p>EUV differs from Market Value: “... assuming that the buyer is granted vacant possession ...”. This means that in the hypothetical exchange physical and legal possession passes to the buyer of all parts of the property required to provide the service. In the case of property this does not mean that any building is assumed to be disused or empty with all that could imply in terms of additional costs for either party. If any part of a property is occupied by a third party, the valuation will reflect the benefit or encumbrance of those occupations. “...of all parts of the property required by the business...”. This reinforces the objective for the value to reflect the potential for the asset to provide the service required of it by the reporting entity. The reference to “the business” reflects the definition’s origins but has been accepted by the UK Government and public sector as also meaning “... of all parts of the property required for delivery of the service..”. If parts of a property are surplus to the operational requirements and if they are capable of separate occupation then they should be categorised as surplus, and separately valued. Any surplus parts incapable of separate occupation would be expected to have no more than a nominal EUV, as they would contribute nothing to the service potential of the property and would not feature in a replacement at least cost. “...disregarding potential alternative uses...”. Unlike market value, which is unconcerned with the needs of a specific entity, EUV requires the valuer to disregard uses that would drive the value above that needed to replace the service potential of the property to the reporting entity. A public sector entity will often have a statutory duty to provide a service in a particular locality and, therefore, potentially higher value uses are of no relevance unless and until the property becomes surplus. Notwithstanding, it would be appropriate to take into account the potential for additional development of a property providing this was for the existing use, would be required by the entity and that such construction could be undertaken without major interruption to the current operation. “...disregarding any other characteristics of the property that would cause the market value to differ from that needed to replace the remaining service potential at least cost.”. This is a “catch all” instruction to ignore any factor that would be reflected in the market value but that is irrelevant to the continued provision of the service. Examples include restrictive user covenants, planning conditions or remedial costs that would be incurred if the existing use ceased. Another would be where a property is in an unusual location or is oversized for its location which would restrict its market value below the cost of replacing the service potential.</p> <p>Like other bases of value, EUV can be estimated using any of the main valuation techniques, i.e. the market approach, the cost approach and the income approach.</p> <p>We are also aware that EUV is being considered as a suitable alternative to Fair Value in other jurisdictions where an objective measure of the cost of replacing the service potential is considered more relevant and capable of estimation than the amount that could be obtained on disposal. Given that EUV has had the benefit of some twenty five years’ use, over which time it has been refined and a body of guidance developed around it, we believe that it is worth the Board considering this as an alternative to “Replacement Cost”.</p> <p>This would also have the advantage of avoiding confusion with historic cost which is available as a</p>	
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		measurement option but for which the techniques used for any of the three valuation options have no relevance.	
RC 5	07	<p>Replacement cost as a measurement basis and an approach to determine fair value</p> <ul style="list-style-type: none"> • At present, 'replacement cost' is identified as a measurement basis in the Conceptual Framework and the illustrative Exposure Draft. 'Replacement cost' is also the basis used when applying the 'cost approach' in determining fair value in IFRS 13. • We do not believe that replacement cost can be used as a measurement basis and as a measurement approach means of calculating fair value. • The 'cost approach' in IFRS 13 (which is measured using replacement cost) is most commonly used in measuring non-monetary assets such as infrastructure. These assets are likely to be held for their operational capacity rather than their financial capacity. In line with our proposal above, we are of the view that fair value should only be used to measure financial capacity. As a result, it may not be necessary to include the 'cost approach' in the fair value guidance. We suggest removing the 'cost approach' from fair value. <p>PV6.2 One of the methods used to determine fair value is the 'cost approach' which is based on the 'current replacement cost' of the asset. We have two concerns about this:</p> <p>(a) It is unclear whether the 'current replacement cost' in IFRS 13 is the same as the 'replacement cost' in Appendix D. While there are similarities in their definitions, different wording is used to describe the same concepts, and the treatment of disposal proceeds at the end of an asset's life is unclear.</p> <p>(b) If 'current replacement cost' and 'replacement cost' are the same and are calculated on the same basis, it is untenable to have the same measurement basis being used as a measurement basis in its own right (Appendix D) as well as a way of determining another (i.e. fair value in Appendix A).</p>	<p>Issue Closed</p> <p>IPSASB decided the measurement hierarchy indicates replacement cost is a measurement technique. Inconsistency no longer exists. See June Agenda Item 6.2.5.</p>
RC 6	07	<p>PV6.3 We have the following comments on the text included in Appendix D:</p> <p>Paragraph D1 and D2 - The different use of the term 'reporting date' and 'measurement date' is observed.</p>	<p>ED 77 Updated</p> <p>Measurement date is now used throughout. Measurement may occur at times that differ from the reporting date, such as initial measurement.</p>

		<p>The guidance in paragraphs D7 to D10 deals with the separation of assets into separate components to determine their useful lives. The separation of assets into components and identifying their useful lives is not unique to the replacement cost measurement basis. In accordance with the IPSAS on Property, Plant and Equipment (IPSAS 17), the components of assets and their useful lives should be determined irrespective of whether the historical cost or revaluation method is applied. We therefore suggest removing this section from the replacement cost chapter and it being retained in IPSAS 17.</p>	<p>ED 77 Updated</p> <p>Componentization guidance removed from ED 77 as it is guidance specific to PP&E (ED 78).</p>
		<p>Paragraph D7 - The reference to 'design lives' should be changed to 'economic lives'. Design life is a term generally used by engineers and is often inconsistent with the idea of economic life for accounting purposes. Engineers will not change or extend the 'design life' of an asset, but for accounting purposes the actual use of an asset by all users (i.e. economic life) may extend beyond an asset's design life.</p>	
		<p>Paragraph D8 makes reference to "...an entity should have regard to the materiality of the assets in relation to the statement of financial position and also think carefully about what is significant...". The difference between significance and materiality is an area that causes confusion among preparers. These two terms are used here generically and do not provide preparers with any assistance. Components of assets are considered in relation to the cost of an asset – not to the value of assets on the statement of financial position. Guidance should be provided about how significance should be assessed. Given that more explicit guidance is provided in IPSAS 17, we suggest that this discussion should be located in IPSAS 17 rather than in the IPSAS on Measurement.</p>	
		<p>Paragraph D16 - This paragraph should make it clear that even though land is included in the valuation, it should be accounted for separately in accordance with the relevant IPSAS.</p>	<p>ED 77 Updated</p> <p>Footnote added.</p>
		<p>Paragraph D21 - Reference is made to 'listed' assets. It is unclear what this means.</p>	<p>ED 77 Updated</p> <p>Term removed. "Listed" is not an internationally recognized term. Historical building is sufficient.</p>
		<p>Paragraph D35 - The service units approach seems better suited (as drafted) for an impairment test. Consider whether this measurement technique is needed in this chapter.</p>	<p>ED 77 Updated</p> <p>The service units approach is not an approach that reflects the amount that</p>

			would be required to replace the service capacity of the asset. Paragraph D35 includes impairment in the approach.
		Paragraph D36 - Reference is made to “date of valuation” – consider amending as suggested.	ED 77 Updated Measurement date is now used throughout.
		Paragraph D38: The reference to borrowing costs be deleted.	No change proposed The cost approach reflects amount required to replace the service capacity of an asset. Borrowing costs should be excluded from this measure as the financing is independent of the cost to replace the service.
RC7	15	<p>Australia and New Zealand look to IPSAS when developing accounting standards for both the public sector and private not-for-profit sector. Often there are no market participants in these sectors, and therefore trying to come up with a hypothetical market participant when there is not one causes issues. We believe that there is insufficient guidance currently for replacement cost, as there are further issues over and above the hypothetical market participant problem. Some of the issues the public sector is currently facing in applying replacement cost include:</p> <ul style="list-style-type: none"> - determining the unit of account when valuing assets (e.g. to what extent should land and non-land assets be disaggregated for the purpose of selecting the appropriate valuation stream), - considering the impact of legal and physical restrictions on current replacement cost, - deciding which costs to include in the replacement cost (especially in situations where part of an asset rather than the entire asset is replaced), - determining economic obsolescence and temporary overcapacity, and - when using current replacement cost, adjusting for differences in utility between existing assets and the modern equivalent. 	<p>Update Application Guidance as necessary (Q4 2020)</p> <p>Staff has reviewed PBE IPSAS 17 and the AASB FV ED. Both include guidance that clearly addresses adjustment to assets in the replacement cost guidance.</p> <p>Staff are of the view this guidance can further inform the IPSASBs measurement ED in Q4 2020. In Q4 the IPSASB will have addressed</p>

		Specific issues such as those listed above have not been addressed in the Consultation Paper, and in this regard, we encourage the IPSASB to reach out to the AASB and the New Zealand Accounting Standards Board (NZASB).	conceptual issues, such as the inclusion of parts of the existing RC guidance into the current cost measurement basis, that will allow staff clarify application (which PBE IPSAS 17 can help with).
RC8	16	In our view, more specific application guidance on replacement cost should be provided, especially how to determine replacement cost in the case of specialized asset/infrastructure assets in the public sector. With regards to the definitions in the ED, we suggest to use the term “current replacement cost approach” rather than “cost approach” to avoid mixing that up with the cost model used in IPSAS 16/17/31. We consider Appendix D: Replacement Cost–Application Guidance, to be complete.	Issue Closed IPSASB decided specific measurement guidance is provided in specific IPSAS. Guidance on infrastructure assets will be provided in IPSAS 17.
RC9	20	However, as mentioned in the answer about PV4, we believe that it is important to describe the relationship between replacement cost as defined in the Conceptual Framework (as a measurement basis) and replacement cost as a measurement technique to determine fair value.	Issue Closed IPSASB decided the measurement hierarchy indicates replacement cost is a measurement technique. Inconsistency no longer exists. See June Agenda Item 6.2.5.
RC10	24	Distinguishing between replacement cost as a measurement base and replacement cost as a method of determining fair value.	Issue Closed IPSASB decided the measurement hierarchy indicates replacement cost is a measurement technique. Inconsistency no longer exists. See June Agenda Item 6.2.5.

RC11	24	<p>I agree with the use of replacement cost as a measurement base for PPE. While we often use a form of replacement cost in determining level 3 fair values for infrastructure assets, we have to deal with exit value concepts such as the nonexistent hypothetical market participant issue discussed above. The Consultation Paper's approach would mean not having to deal with issue, and using entity specific assumptions.</p> <p>More guidance is required in how to apply replacement cost. I have included in Appendix 2 a list of numerous practical issues I have encountered in applying IFRS 13 in the public sector, particularly to infrastructure assets. These issues will need to be addressed if replacement cost is used for many of those assets.</p>	<p>ED 77 Updated</p> <p>The list of issues in Appendix 2 to the letter were reviewed and addressed accordingly. Many issues were specific to PP&E and are being addressed as part of the ED 78 project.</p>
		<p>Other comments Paragraph D4 - Alternate locations – I do not agree with the guidance about having to identify alternate locations. Having to assess possible alternate locations is not useful if there are no plans to move the asset. Having to spend time on this issue is similar to the non-existent hypothetical market participant concept. These paragraphs are inconsistent with paragraphs D25 and D26.</p>	<p>No change proposed</p> <p>Paragraph D4 indicates an entity may assume the asset is situated on an alternative site. This is consistent with D25 and D26 that assume the entity will act in its best interest.</p> <p>While it may be rare an alternative location is possible, the cost approach assumes the valuation of the service being replaced, not the specific asset. As such when the location of the asset is irrelevant, it should be taken into account.</p>
		<p>I support the approach of paragraphs D25 and D26 not requiring unnecessary time and expense on hypotheticals.</p>	<p>No change proposed</p> <p>Respondent agrees with guidance.</p>
		<p>Paragraph D12 – More guidance is needed on valuing the school as a 100 student school – do you value</p>	<p>No change proposed</p>

		the gross replacement cost being for the asset that is there being a 500 student school and then adjusting for economic obsolescence to reduce the net replacement cost for a 100 student school, or do you just do one valuation and the gross replacement cost is based on a 100 student school.	The respondent raises a valid question, however the valuation will depend on the facts and circumstances available to the valuator. IPSAS, Measurement seeks to develop principles rather than rules on the exact steps in measuring an item.
		Paragraph D22 – Restrictions. Australia is currently addressing issues relating to restrictions, particularly on land under public sector assets, including land under roads and land under schools. Some jurisdictions arbitrarily apply discounts because of the public sector usage, and other jurisdictions do not.	<p>Update Application Guidance as necessary (Q4 2020)</p> <p>Staff has reviewed the AASB FV ED. It includes guidance that clearly addresses restrictions.</p> <p>Staff are of the view this guidance can further inform the IPSASBs measurement ED in Q4 2020. In Q4 the IPSASB will have addressed conceptual issues, such as the inclusion of parts of the existing RC guidance into the current cost measurement basis, that will allow staff clarify application.</p>
		Paragraph D33 – the reference to a 300 student school is different to the earlier example of a 100 student school. Also refer to earlier comments on paragraph D12.	<p>No change proposed</p> <p>Agree the number of students varies in the examples. However, consistency in the number of students is not necessary to illustrate the principle in</p>

			D12 and D33.
		Paragraph D37 – Site preparation. This paragraph is confusing and appears to require the day 2 write-off of site preparation and earthwork costs by not including them in the replacement costs.	No change proposed Site preparation is excluded from a cost approach measurement. However, site preparation would be included in a historical cost measurement. Since replacement cost is not applied as a technique for historical cost, day 2 write off is not an issue.
RC 12	25	<p>We observe that replacement cost is used in several occasions in the suite of IPSAS standards, for instance as follows:</p> <ul style="list-style-type: none"> - In IPSAS 12, current replacement cost is defined as “the cost the entity would incur to acquire the asset on the reporting date” (See IPSAS 12.9. 7); - IPSAS 17.8 refers to depreciated replacement cost as an estimation of fair value in the case of specialised buildings measured using the revaluation model. Incidentally, the question of the distinction between a measurement model and a measurement basis could also be raised here; - IPSAS 21.9 also uses a reference to depreciated replacement cost, though more as an approach, to measure “the present value of the remaining service potential of an asset.”; - In the Conceptual Framework, it is further described as a surrogate for value in use in those cases where expected cash flows are inappropriate. <p>Based on the above observation, replacement cost could be perceived as a subset of fair value. We would therefore question whether it is relevant to discuss replacement cost in a standalone appendix. In that line of thoughts, we note that IFRS 13.11 refers to replacement cost as a valuation technique to measure fair value. Conversely, the decision tree in diagram 4.1 indicates that replacement cost is to be selected for assets that are held for their operational capacities; hence, replacement cost is considered different from fair value that would be selected for assets that are held for their financial capacities. We would therefore recommend that the IPSAS Board decide whether replacement cost should be related to fair value; if it should, we would be grateful that the Board elaborate on the consequences, especially with respect to the decision trees. We believe that it is critical to resolve that perceived inconsistency before an opinion can be formed on the merits of Appendix D.</p>	Issue Closed IPSASB decided the measurement hierarchy indicates replacement cost is a measurement technique. Inconsistency no longer exists. See <u>June</u> Agenda Item 6.2.5.

		Another issue that arises from the above finding is that, should replacement cost be considered a fair value-type of measurement, then one could argue that the distinction between operational and financial capacities is somehow conceptually flawed and practically not helpful. We would appreciate if the IPSAS Board could tackle this additional concern.	
RC 13	26	<p>Section D30 - Depreciated Replacement Cost</p> <p>Replacement cost is defined as the cost to replace the service potential of an asset. In other words, the entry cost or cost to construct. The cost-based value at any time during its lifecycle is given by the replacement cost less deductions for depreciation. This is called the depreciated replacement cost. The depreciation for infrastructure assets is invariably straight line and represents an accounting allocation of the depreciable costs over the life of the asset. Unfortunately, the accounting depreciated replacement cost can be significantly different from the entry value of an asset except when the asset is brand new.</p> <p>I will demonstrate this with a simple example. Take a specialised asset, a bridge. It has a construction cost of \$10M and is 35 years old. The average total life for such a structure is say 80 years and therefore has an expected remaining life of 45 years. The DRC of the bridge is $\\$10M \times 45/80 = \\$5.625M$. The entry cost for purchasing the 35 year old bridge should take into account the expected timing of expenditures rather than the cumulative accounting depreciation. In this instance the value is the cost of a new bridge less the difference in present value cost of bringing forward the purchase of a replacement from 80 years time to 45 years time. Assuming a net discount rate of 4%, the entry cost of the 35 year old bridge is $\\$RC0 + 0.043 = \\$8.7M$. The two values are significantly different.</p> <p>The entry value for someone purchasing the asset partway through its lifecycle is best represented by its economic value, not depreciated replacement cost. What I am proposing here is an alternative measure of fair value for a specialised asset.</p>	<p>No change proposed</p> <p>D30 requires the DRC method to determine the replacement cost of a modern equivalent asset. This appears to be consistent with the suggestion proposed by the respondent.</p>
		<p>Section D38 – Phasing of Work</p> <p>This section states that the value of a modern equivalent asset that had been developed in phases, should assume that construction happened instantly. I do not agree with this statement. When it comes to constructing say a passenger terminal at an airport, the terminal is generally constructed in phases as demand grows. Optimisation is all about minimising the full lifecycle costs. Constructing the full sized terminal at year zero would have a lower construction cost because it is built in a greenfield situation whereas the increments have a much higher cost because construction occurs in a brownfield situation. Yet the present value cost of incrementally extending the building to match passenger growth over time will likely be lower than the upfront cost of a single phase building. Requiring an incrementally grown asset to be valued as a single point build, would result in a significant write down in the value of capital spend each time a new increment is added.</p>	<p>No change proposed</p> <p>The cost approach requires the service capacity be considered in the valuation. Given the level of current service is known, it seems reasonable to assume if the service was to be replaced it would be done in one phase.</p> <p>Borrowing costs should be</p>

		<p>This section also states that no allowance should be made for holding cost (the cost of capital over the duration of construction). This is because construction is assumed to occur instantaneously. This is an unrealistic requirement. Holding costs are real and occur in all efficient construction markets.</p>	<p>excluded from this measure as the financing is independent of the cost to replace the service.</p>
		<p>Section D40 – Contract Variations</p> <p>This section states that additional construction costs because of design or specification changes should be ignored. This does not seem right. Those changes are most probably made to improve the asset level</p>	<p>No change proposed</p> <p>The cost approach requires the service capacity be considered in the valuation. Since design / specification changes are related to the asset and not necessarily the service, they are ignored in valuing the replacement of the service.</p>
RC 14	27	<p>D3 & D13</p> <p>We believe D3 and D13 are erroneous due to 'condition' and 'asset specification' being included in the wrong paragraphs. Under the standard we first need to determine the Replacement Cost and then based on relevant factors assess the remaining service potential to determine the Depreciated Replacement Cost.</p> <p>The 'condition' of the asset is relevant to the determination of the 'Depreciated Replacement Cost' and not the 'Replacement Cost'. Likewise the 'specification' of the asset is relevant to the determination of the 'Replacement Cost' not the 'DRC'. I.e. Two identical assets used in the same way will have the same replacement cost irrespective of their condition. If one is a far worse condition than the other the Depreciated Replacement Cost would be expected to be lower.</p> <p>The 'condition' of the asset should be moved to D13 and the 'specification' of the asset should be moved from D13 to D3.</p>	<p>No change proposed</p> <p>This is a good point. However, replacement cost is used interchangeably with DRC in this appendix. Paragraph D13 does not refer to DRC, which does not allow readers to incorrectly attribute characteristics to DRC or RC.</p>
		<p>D12</p> <p>Agree with the comment. However, believe additional comment needs to be added to clarify that if the decrease in capacity is expected to be temporary (i.e. school numbers are expected to be 500 again in 10 year) that the replacement cost should be determined based on 500 students.</p>	<p>No change proposed</p> <p>If the number of students is expected to return to 500, the replacement cost may be based on 500, rather than 100, as this is the</p>

			service capacity that requires replacement.
		<p>D22</p> <p>We agree with the comment however believe that this paragraph is either not required or needs to be enhanced to ensure there is no ambiguity. i.e. Confirm that the value is the full un-discounted cost of its replacement cost.</p> <p>For many this paragraph will convey a belief that because the land is used as parkland that the value needs to be discounted from a market value of what it would cost the government to purchase the land.</p> <p>This issue was recently considered by the AASB which concluded that the value of such land should be based on its replacement value and as the government would need to pay a full market price to obtain such land the replacement cost is the amount paid.</p> <p>Under the proposed IPSASB framework such land would also be valued using DRC as it is held on an on-going basis, not held at historical cost and is specialized in nature as it is restricted for specific use and is not land held in freehold title.</p> <p>Under both IFRS and IPSAS restricted land such as parkland should be valued at the full market rate that the government would need to pay in order for its acquisition.</p>	<p>ED 77 Updated</p> <p>No changes proposed to the principle, however the example is removed. It is unclear how land donated with a restricted purpose impacts the value of the land.</p>
		<p>D30 Difference between depreciation expense and Depreciation for valuation</p> <p>While the standard highlights the need to adjust the replacement cost for the impact of obsolescence to determine the DRC it fails to highlight (as done in both IFRS and IVSC) standards that depreciation for financial reporting purposes (depreciation expense) is conceptual different from obsolescence (or depreciation) for valuation purposes.</p> <p>Especially for highly material infrastructure assets that experience regular renewal there is no link between depreciation expense and the asset value. The value needs to be based on the assessment of the various obsolescence types and in the case of physical obsolescence includes asset condition.</p> <p>We suggest paragraph D30 be enhanced to clarify that depreciation for financial reporting is conceptually different and not linked in any way to the assessment of the DRC.</p>	<p>No change proposed</p> <p>The cost approach principle indicates <i>obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) <u>obsolescence and is broader than depreciation for financial reporting purposes</u> (an allocation of historical cost) or tax purposes (using specified service lives).</i></p>

RC 15	29	HoTARAC notes that paragraph 2.17 suggests further work is to be done on aligning the concept of replacement cost as measurement base and replacement cost as a measurement technique.	Issue Closed IPSASB decided the measurement hierarchy indicates replacement cost is a measurement technique. Inconsistency no longer exists. See June Agenda Item 6.2.5.
RC 16	31	IPSASB may want to consider providing guidance as to what is a “significant part” identified in paragraph D8.	ED 77 Updated In response to RC 7, componentization guidance removed from ED 77 as it is guidance specific to PP&E (ED 78).
		Paragraph D11 refers to service potential and service capacity. Are these terms intended to be used interchangeably? If so, it may be helpful to use one term, not both. If not, it may be helpful to define both terms. Note: PSAB uses “service capacity” in the same way that IPSASB employs “financial capacity” and “operational capacity”; that is, in a more global sense to measure the capacity of the entity to do something (in this case to serve the public). In contrast, “service potential” is used in relation to the capability of individual assets to be used to provide services.	ED 77 Updated Terms are now applied consistently. See analysis in Agenda Item 7.2.1 .
		Editorial Note: • In paragraph D6, consider if “D30-D32” should be replaced with “D31-D33”. • In paragraph D7, consider if “D30” should be replaced with “D31”.	ED 77 Updated References have been updated.
		New Measurement Base: Reconstruction (or “reproduction”) cost may be a measurement basis critical to measurement of heritage assets. It is currently mentioned only briefly as a type of replacement cost (i.e., replace same asset or replace same capacity). Consideration should be given to providing more detail on this measurement basis to ensure the Measurement IPSAS covers all key measurement bases, even those that are anticipated to be used in future IPSASs.	No change proposed The measurement bases have been considered in the context of the CF-LSU project. Reproduction cost was not identified as a
		We suggest that more information about reconstruction (or “reproduction”) cost be included in the description of replacement cost (for example, a “replace same asset” versus “replace same capacity”	

		discussion) since the heritage Agenda Item 11 for the IPSASB Sept-19 meeting mentions the use of reconstruction cost to measure some heritage items.	commonly used basis.
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Unedited Responses – Historical Cost

Issue Number	Response Number	Issue	Status
HC 1	04	<p>If the IPSASB decides to proceed with a general measurement standard (rather than developing an IPSAS that is equivalent to IFRS 13), we think the following two conditions could be used to identify application guidance that is appropriate for inclusion in a general measurement standard. The conditions are that the application guidance is:</p> <p>(a) public sector specific; and</p> <p>(b) sufficiently generic that it can be used in more than one standard.</p> <p>Application guidance on historical cost would not meet these conditions because there is little or no generic application guidance needed. We believe that much of the current application guidance on historical cost is best located in individual standards. In addition, moving guidance on historical costs from individual standards to a general measurement standard would result in unnecessary changes to IPSAS and potentially unnecessary differences between IPSAS and IFRS Standards.</p>	<p>Issue Closed</p> <p>IPSASB decided guidance should be developed for the commonly applied measurement bases in IPSAS. See June Agenda Item 7.2.6.</p>
HC 2	04	<p>We note that the treatment of borrowing costs is an historical cost issue and that the discussion of historical cost should have included the borrowing cost discussion. Recent debates about which costs to include in the measurement of liabilities could also have been considered as part of a broader historical cost discussion.</p>	<p>Issue Closed</p> <p>IPSASB decided IPSAS 5, <i>Borrowing Costs</i>, includes comprehensive borrowing cost guidance. See June Agenda Item 7.2.5.</p>
HC 3	04	<p>We disagree with the IPSASB's assertion that historical cost is not applicable to liabilities (as per the footnote 38 to Appendix C, shown below). Historical cost is a possible measurement basis for liabilities, with some liabilities being measured at amortised cost. As noted in an AASB occasional paper (2013), many liabilities do not have historical proceeds but, if the amounts of the proceeds attributable to a liability are clearly evident and the amount reflects the characteristics of the liability, historical cost could be a reasonable surrogate for exit-price or entity-specific value. The assertion that historical cost is not applicable to liabilities also seems inconsistent with Diagram 4.2 Subsequent Measurement: Liabilities which suggests that the IPSASB will consider historical cost as a measurement basis for liabilities.</p>	<p>ED 77 Updated</p> <p>The historical cost AG has been updated to include liabilities.</p>

		This application guidance focuses on historical cost for assets, because the consultation paper's flow chart for liability measurement indicates that historical cost is not applicable to the measurement of liabilities. It does not address depreciation, amortization and impairment, because previous IPSASB decisions have indicated that these should be addressed in other IPSAS, rather than IPSAS, Measurement.	
HC 4	07	Paragraph C1 - Consider amending as follows: "...at the time of its acquisition and/or development..." so that it is clear that an asset could be both acquired and subsequently developed (this proposed amendment is also consistent with wording in paragraph C11). Also consider changing the tenses of 'develop' or 'acquire' to past tense, i.e. 'developed' or 'acquired'.	ED 77 Updated Clarification that assets can be purchased <u>and/or</u> acquired has been reflected.
		Paragraph C4 – Reference is made to a 'current value'. It is unclear what this 'current value' represents and how it would be calculated.	ED 77 Updated Comment highlights paragraph C4 provided initial measurement guidance. HC guidance has been updated to reflect both initial and subsequent measurement (see Agenda Item 7.2.15).
		Footnote 38 - "The application guidance focuses on historical cost for assets, because the consultation paper's flow chart for liability indicates that historical cost is not applicable to the measurement of liabilities." Page 41 of the Consultation Paper however seems to refer specifically to historical cost. This footnote seems to be inconsistent with the flow chart in the Consultation Paper.	ED 77 Updated Clarification that assets can be purchased <u>and/or</u> acquired has been reflected.
		Paragraph C8 - Review the drafting of the last sentence as some wording seems to be missing.	ED 77 Updated Wording updated to complete sentence.
		Paragraph C10 - An example of a bond is used in this paragraph. As bonds are initially measured at fair value at acquisition, this example seems inappropriate in a discussion of amortised cost.	ED 77 Updated The example of bond is removed as it is a

			financial instrument measured at FV.
		Paragraph C15(b)(v) - The IASB is proposing changes to whether these proceeds can be included in the cost of the assets. The IPSASB should monitor the project to ensure that the latest developments	ED 77 Updated Comment highlights initial measurement guidance. HC guidance has been updated to reflect both initial and subsequent measurement (see Agenda Item 7.2.15).
		PV3.2 We question the interaction between the guidance in the illustrative Exposure Draft and the existing IPSAS on Intangible Assets. Paragraph C18 specifically refers to intangible assets and the treatment of development costs. We question if this is consistent with the idea that the IPSAS on Measurement would deal with generic principles and the specific treatment of transactions in the individual IPSAS.	
		PV3.3 We question the guidance in paragraphs C7 to C19. It seems to be written as a 'guidance manual' rather than clearly articulating principles for when costs are capitalised to the cost of an asset or not. In particular, the discussions on the capitalisation of costs based on how an asset is acquired seems to provide guidance rather than clear principles that could be applied to a range of scenarios. Only the text that clearly articulates a principle should be retained.	
		PV3.4 We question the need for amortised cost in the 'historical cost' chapter. While we appreciate that there is a view that amortised cost may depict a cost measure, it is not defined in the same way as 'historical cost' in the definitions section of the illustrative Exposure Draft and paragraph C1. The paragraphs – which are drawn from the IASB's Conceptual Framework – are too generic to be of any value in an IPSAS outlining the detailed application of the measurement bases.	ED 77 Updated Additional guidance provided to explain amortized cost.
		PV3.5 Some stakeholders questioned whether amortised cost is always a historical measure. If amortised cost is calculated on a variable rate instrument where the rate resets to a market rate at specified intervals, the amortised cost may be closer to a 'current' measure.	No change proposed Historical cost uses current information to update an initial measurement. For example, when an impairment occurs, current information is used in updating HC.
HC 5	13	We believe that improvements are needed on the following issues. 1. Paragraphs C12 to C13 and C15 to C17 all address the issues of incidental costs. A single requirement	ED 77 Updated Comment highlights initial

		<p>for them should be developed. C12(b), for example, refers to specific examples related to costs incidental to purchase. C15 includes an example of the costs that should be included in consideration attributable to purchase and/or development (that is, incidental costs). The descriptions are redundant.</p> <p>2. C16 states that costs are excluded from the consideration (they are not incidental costs) if they: (a) are not directly incidental to the asset's acquisition and/or development; or (b) do not contribute to the ability to create the asset's service potential and/or future economic benefits. This may imply that an incidental cost can be excluded only if condition (b) is met. The reference to (a) should be retained, but (b) only relates to the introduction of examples. Condition (b), accordingly, is not a criterion independently applicable, and should be moved to C17. Thus, C16 should thus be revised as follows:</p> <p>C16. Costs not directly incidental to the asset's acquisition and/or development are excluded from the consideration that forms a part of an asset's historical cost.</p>	<p>measurement guidance. HC guidance has been updated to reflect both initial and subsequent measurement (see Agenda Item 7.2.15).</p>
HC 6	14	<p>We note that paragraph C13 is derived from IASB's CF BC6.32 and BC6.33. Given that C13 is only part of an illustrative ED, we will not propose drafting changes in this response but instead voice our concerns that IASB's Basis for Conclusions have been turned into an integral part the illustrative ED. Basis for Conclusions are not integral to standards and IPSASB should be referring to the core body of IASB's literature for use in their standards.</p>	<p>Issues Closed</p> <p>IPSASB decided the source of the text is not relevant in determining whether it is useful for constituents. Text was derived from several sources based on whether it clarified how to apply measurement bases in practice. See June Agenda Item 7.2.6.</p>
HC 7	15	<p>However, we have some observations on its appropriateness in the context of these proposals. It appears that the appendices contain:</p> <ul style="list-style-type: none"> • Content taken from the Conceptual Frameworks (IPSASB and IASB); • Content taken from other IPSAS; and • Newly added content. <p>Due to its very nature, the content taken from the Conceptual Frameworks is not helpful as application guidance. It repeats extant content without adding practical guidance. The content taken from other IPSAS is also generally not helpful when taken from the 'body' of extant IPSAS which contain principles and requirements rather than 'application guidance.' As mentioned in our response to the IPSASB's preliminary view 2 above, various aspects of guidance often occur only once throughout IPSAS. Therefore, we question whether it is appropriate to consider such guidance generic. Arguably, the newly added content is not helpful as application guidance either – as it appears to be conceptual, and we have the following reservations:</p> <ul style="list-style-type: none"> • We are unsure what the gaps in IPSAS are that the IPSASB is attempting to address. Specific concerns in the public sector have not been highlighted suggesting the need for solutions proposed in the Illustrative ED paragraph C12 in the Appendix C to the Illustrative ED refers to transport costs incurred in relation to 	

		consideration for a purchased asset. Whilst transport costs may be relevant to the purchase of a non-financial asset, it is unlikely to be relevant to the acquisition of a financial instrument.	
HC 8	19	<p>The value of Other Consideration: Exchange for Non-Monetary Asset(s)</p> <p>Currently, paragraph 38 of IPSAS 17 Property, Plant and Equipment requires an entity to measure an exchanged asset at fair value (unless it lacks commercial substance; or the fair value of either the asset given or asset received is not reliably estimate). The standard further clarifies in paragraph 40 that if an entity is able to determine reliably the fair value of both (asset given up/received), then the fair value of the asset given up shall be used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.</p> <p>We understand that paragraph C4 of the illustrative ED the IPSASB provides two changes in substance to the above:</p> <ul style="list-style-type: none"> - Fair value is replaced by current value: The EC considers that using the current value might be more appropriate in public sector as preparers are allowed to choose the appropriate current value dependent on the economic circumstances and the objectives of financial reporting (i.e. cost of services, operational capacity and financial capacity). - Fair value of the asset received: We noticed that in paragraph C4 of the illustrative ED, the condition (b) (the current fair value of the asset given up cannot be measured (...)) was also changed as compared to the current wording of IPSAS 17 given that the standard refers to the fair value of the asset given up or received. We suggest clarifying whether or not this change was intended and the reasons for it. It would in particular be useful to understand how entities should apply the guidance to an exchange of assets, since the reading of the new text seems inconsistent with the provisions in IPSAS 17, which currently requires that the value of the asset received should be used if more clearly evident. Finally, we note that the same requirement exists for intangible assets (IPSAS 31.44), to the extent that IPSAS 17 is amended, IPSAS 31 Intangible Assets should be amended accordingly. <p>Furthermore, we highlight that there might be an inconsistency between the measurement of an asset acquired in an exchange of asset that lacks commercial substance, which shall be measured at carrying amount, and an asset acquired in a non-exchange transaction that falls in the scope of IPSAS 23 Revenue From Non-Exchange Transactions (Taxes and Transfer), which requires the asset to be measured at fair value at initial recognition.</p> <p>Purchase, Construction and Development of an Asset: Examples of Consideration to Include</p> <p>The illustrative exposure draft includes in paragraph C15 guidance drawn from IPSAS 17 on the elements of</p>	<p>ED 77 Updated</p> <p>Comment highlights initial measurement guidance. HC guidance has been updated to reflect both initial and subsequent measurement (see Agenda Item 7.2.15).</p>

		<p>the cost. We would like to suggest including guidance on the following issues:</p> <p>(i) Penalties: consider clarifying whether any penalties (liquidated damages) received should be deducted from the cost of the item in case a constructor would have to compensate the entity for delays in the asset development; and</p> <p>(ii) Incentives: consider clarifying whether the cost of the item should include any contractual amount conditional to a future event (e.g. the construction contract may include incentives that are only to be paid depending on the quality of the asset functioning during several years of operations).</p>	
		<p>Finally, in reference to C18, we would propose to reconsider if some of the guidance included in IPSAS 31 should become part of the generic guidance on the historic costs in the future measurement standard. We note that there could be cases where a development of a PPE item is also preceded by a research phase. In particular, we refer to feasibility studies done for some innovative, specialised assets (e.g. satellite navigation systems).</p>	
HC 9	20	<p>In developing measurement guidance for historical cost in the Illustrative ED, the IPSASB consolidated guidance available in the Conceptual Framework, IPSAS 16 (Investment Property), and IPSAS 17 (Property, Plant, and Equipment), but the board did not address historical cost for liabilities.</p>	<p>ED 77 Updated</p> <p>The historical cost AG has been updated to include liabilities.</p>
HC 10	24	<p>Historical cost has been used for many years. Moving it to one area and changing those requirements to make it consistent is then going to change how those items are accounted for. Or at a minimum, raising questions as to whether there has been a change.</p> <p>Given the desire to be consistent with IFRS, I believe the changes to historical cost should not be made, and the requirements (even if inconsistent) left as they are.</p> <p>I have encountered diversity in the accounting treatment of long-term prepayments, say 10 to 20 years, and some for 99 years. I have included details in Appendix 1. I request the IPSASB to provide some guidance on this issue.</p>	<p>Issue Closed</p> <p>IPSASB decided guidance should be developed for the commonly applied measurement bases in IPSAS. See June Agenda Item 7.2.6.</p>
HC 11	24	<p>Other comments Paragraph C15 – Currently deducts proceeds from testing. The IASB project needs to be monitored. https://www.ifrs.org/projects/work-plan/property-plant-and-equipmentproceeds-before-intended-use/</p>	<p>No change proposed</p> <p>Project will be monitored. Comment deadline is September 14, 2020.</p>

		<p>Paragraph C21 does not look right. It currently states: C21. For variable rate instruments, where the asset or liability bears interest at a variable rate, the discount rate is updated to reflect changes in the variable rate.</p> <p>The paragraph appears to be drafted to pick up the essentially practical expedient for floating rate notes in IFRS 9. However, the reference to 'variable rate' might also pick up instruments that have different rates for different periods, e.g. 3% for the first two years, and 5% in years 4 and 5 – in this situation the effective interest rate method covers this.</p>	<p>ED 77 Updated</p> <p>Wording has been updated to reflect IPSAS 41 guidance.</p>
HC 12	28	<p>The guidance in Appendix C should be extended to also apply to liabilities because short-term payables (example, most trade payables) may be measured at the original invoice amount if the effect of discounting is not material. Furthermore, with respect to fulfilment of liabilities, B20 (Page 75) states that “an entity need not discount the value of the future outflow of resources if the entity expects the obligation to be settled within one year”. Historical cost is acceptable for measuring short-term liabilities. Longer term debts and similar obligations would represent more difficult measurement issues.</p>	<p>ED 77 Updated</p> <p>The historical cost AG has been updated to include liabilities.</p>
HC 13	31	<p>We have the following comments on Appendix C:</p> <ul style="list-style-type: none"> • Footnote 38 on the heading of the Appendix indicates the guidance focuses on the historical cost of assets because the consultation paper's flow chart for liability measurement indicates that historical cost is not applicable to the measurement of liabilities. We disagree with this statement for the following reasons: <ul style="list-style-type: none"> - According to the Liability Flow Chart in Diagram 4.2, historical cost is one of the options. - Historical cost, as a measurement attribute has been used for liabilities. - Your conceptual framework lists historical cost for liabilities. - The IASB, in its conceptual framework, also acknowledges “historical cost” as a measurement base for liabilities. <p>The equivalent to historical cost for liabilities is “historical proceeds”.</p>	<p>ED 77 Updated</p> <p>The historical cost AG has been updated to include liabilities.</p>
HC 14	31	<ul style="list-style-type: none"> • There is no discussion as to what happens to the historical cost value subsequent to initial measurement in the Appendix (some information is included in the body of the illustrative exposure draft). It may be helpful to include this information. An example of this information could be “Subsequent to initial measurement: <ul style="list-style-type: none"> (a) the historical cost of an asset may be adjusted (e.g., for amortization or impairment); or (b) the historical cost of a liability may be adjusted (e.g., to reflect the accrual of interest, the accretion of a discount or amortization of a premium); or (c) an estimated historical cost amount may be adjusted because of a change in an estimate.” 	<p>ED 77 Updated</p> <p>Comment highlights initial measurement guidance. HC guidance has been updated to reflect both initial and subsequent measurement (see Agenda Item 7.2.15).</p>

		<ul style="list-style-type: none"> • The phrase “acquire, construct and/or develop” is introduced as a heading to paragraph C10 and then used for the remainder of the Appendix. To be consistent in the Appendix, it may be helpful to include the phrase from the start (i.e. at the start of the appendix, the phrase “to acquire or develop” is used). 	ED 77 Updated Clarification has been reflected in text.
		<ul style="list-style-type: none"> • The Appendix has a section on costs incurred after the acquisition and/or development of the asset that should be excluded. It may be helpful to include guidance as to costs that could be included such as betterments. 	No change proposed Guidance on betterments is specific to PP&E. Only generic guidance is included.
		<ul style="list-style-type: none"> • Appendix A, B and D start with the objective of the specific measurement base. It may be helpful to include this objective in Appendix C to be consistent with the other Appendices. 	ED 77 Updated Objective paragraph added for consistency across AGs.
		<ul style="list-style-type: none"> • It may be appropriate to indicate that historical cost/historical proceeds may be a known amount, because of a transaction/contract price. Or, historical cost may be an estimated amount. For example: <ul style="list-style-type: none"> o An estimate of a government’s liability for recovery assistance may be required for an event such as a natural disaster (this may mean that “fulfillment value” is a way to estimate the historical amount of a liability). o An estimate may also be required for an inherited asset initially accounted for, and for which no historical cost is available. The fair value ascribed to the asset at initial measurement may be one way to estimate its historical cost, or valuation techniques may be required for such estimation. 	ED 77 Updated Comment highlights initial measurement guidance. HC guidance has been updated to reflect both initial and subsequent measurement (see Agenda Item 7.2.15).

Unedited Responses – Fair Value

Issue Number	Response Number	Issue	Status
FV 1	04	Addendum C of the CP shows that the IPSASB has not included the IFRS 13 guidance on non-performance risk (paragraphs 42 to 45 of IFRS 13) in the illustrative ED. Addendum C indicates that this guidance is potentially to be included in IPSAS 41 Financial Instruments. In the absence of a Basis for Conclusions outlining why the IPSASB has decided not to include such guidance in the illustrative ED and the IPSASB's views about the impact of omitting such guidance from the proposed measurement standard, we cannot form a view on whether this omission is appropriate.	ED 77 Updated BC 17 has been added to reflect the exclusion of the IFRS 13 paragraphs.
FV 2	04	<p>Experience in applying IFRS 13</p> <p>Although IFRS 13 Fair Value Measurement was developed for application by entities applying IFRS Standards, the majority of which have a profit objective, public sector entities in some jurisdictions, such as Australia and the United Kingdom, have also been required to apply IFRS 13 or equivalent requirements to certain assets. The way in which the relevant assets have been specified, the implementation issues encountered and the response of standard setters to those issues could inform discussions as the IPSASB moves forward with this project.</p> <p>The AASB is currently looking at some issues associated with the application of AASB 13 Fair Value Measurement to public sector not-for-profit entities which may be of interest to the IPSASB. The AASB is proposing to develop illustrative examples to help public sector entities determine current replacement cost in accordance with AASB 13. The AASB has also been deliberating on whether the fair value of assets held for their service capacity should be determined differently from those assets held primarily for their ability to generate net cash inflows.</p>	<p>Update Application Guidance as necessary (Q4 2020)</p> <p>Staff has reviewed the AASB FV ED. It includes guidance that addresses public sector specific challenges when applying fair value (such as highest and best use).</p> <p>The IPSASB has addressed this issue by developing the current cost measurement basis. As such, staff are of the view this guidance can further inform the IPSASBs measurement ED in Q4 2020 after the IPSASB has addressed conceptual issues, such as agreeing the</p>

			concepts of current cost. That will allow staff clarify application.
FV 3	07	If the cost approach is retained, we have the following comment on paragraph A19 - Paragraph D5 explains that a particular asset may need to be situated in a particular location because of legal or social policy decisions. It might be helpful to include a similar discussion in A19 as this is likely to be a reason for not being able to use a non-financial asset for its highest and best use.	ED 77 Updated A public sector specific measurement basis, <u>current cost</u> , has been developed. Application of the cost approach to this basis has been updated to include the guidance from D5.
		Paragraph A22(a)(i) - It might be helpful to include a reference to heritage assets as collections of heritage assets are often an example where the collection may have more value than the sum of the individual assets.	No change proposed The current cost measurement basis is to be applied when measuring PP&E. Current cost does not include the concept of highest and best use. No update required to highest and best use guidance in fair value AG as it is not applied to heritage items.
		Paragraph A29 - The list outlines examples when the transaction price of an asset or liability may be different to the fair value at acquisition. It might be helpful to include in the list that an entity may not charge a market related rate to achieve specific social policy objectives, e.g. the issuing of concessionary loans or financial guarantees where no or a nominal fee is charged.	ED 77 Updated Paragraph has been updated to include the public sector circumstance.
		Paragraph A39 - There is no mention in A39 or A40 of the inclusion of the proceeds from the disposal of the	ED 77 Updated

		<p>asset at the end of its life in the valuation (as is the case when replacement cost is discussed in Appendix D). If the cost approach is retained, we have the following comments on paragraph A40 - It is unclear whether the determination of replacement cost in this appendix is on an 'optimised' basis or not (as is the case in Appendix D). It would be helpful if the differences between how replacement cost is defined and discussed in Appendix A and Appendix D could be compared, differences identified, and resolved. If they are meant to be determined on the same basis, then Appendix A should refer to Appendix D.</p>	<p>Guidance on replacement cost has been incorporated into the current cost approach. Agenda Item 7.2.11 recommended these techniques are consistent. Reference has been made to guidance in the current cost AG.</p>
		<p>Use of fair value</p> <ul style="list-style-type: none"> • At present, the IPSASB's Conceptual Framework for General Purpose Financial Reports in the Public Sector does not include 'fair value' as defined in IFRS 13 on Fair Value Measurement as a measurement basis. • We agree that, in order to maintain alignment with International Financial Reporting Standards, the IPSASB needs to include 'fair value' in its literature. However, we question how it will be used and its interaction with other measurement bases such as 'market value' and 'replacement cost'. • Fair value, as defined in IFRS 13 is an exit-based measure of assets and liabilities. It is therefore only likely to be relevant when measuring the financial capacity of assets. • Given our limited support for the use of fair value in IPSAS, this would impact on the modification of IFRS Standards when they are developed as an IPSAS. This would particularly be the case where an IFRS Standard proposes using fair value to measure the 'operational capacity' of an asset. As a result, there may be some need for divergence from IFRS regarding the use of fair value. 	<p>ED 77 Updated</p> <p>Items in this section are conceptual issues discussed by the IPSASB in June and September 2020. ED has been updated to reflect inclusion of fair value and its interaction with other bases/techniques.</p>
FV 4	13	<p>1. A6 of Appendix A of the CP states that "A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions". An asset or liability "exchanged in an orderly transaction between market participants" could be interpreted to exclude non-exchange transactions. Non-exchange transactions are quite common in the public sector. As described in Paragraph 27 of IPSAS 16 Property, Equipment and Plant, nonexchange transactions are commonly entered in the public sector and must be measured at fair value. Therefore, we propose that the IPSASB should clarify that the requirements concerning fair value include "non-exchange transactions."</p>	<p>ED 77 Updated</p> <p>A public sector specific measurement basis, current cost, has been developed. This basis is likely applied for non-exchange transactions.</p>

		2. To help constituents consider the preliminary view, we request that the ED include a cross reference to the requirements of IFRS 13 that are relevant, in addition to AG. The Basis for Conclusion should clarify why the requirements in Paragraphs 34 to 56 and Paragraphs 70 to 71 were excluded.	ED 77 Updated BC 17 has been added to reflect the exclusion of the IFRS 13 paragraphs.
FV 5	14	We recommend that more application guidance is provided in relation to highest and best use for non-financial assets (A18 to A21). We believe that paragraph A21 over-simplifies the fact that in the public sector there will be hard and soft restrictions in place that will prevent some entities from accessing the highest and best market. Example of a hard restriction could be legislation or a restrictive covenant over an asset, whilst a soft restriction could be the need to deliver public services in a particular geographic location which requires assets to be owned in those locations.	ED 77 Updated A public sector specific measurement basis, current cost, has been developed. Guidance has been added to indicate consideration of restrictions is necessary.
FV 6	15	We encourage the IPSASB to consider the AASB's fair value measurement in the public sector project which may inform the IPSASB's deliberations as the AASB is addressing specific issues raised by public sector constituents.	Update Application Guidance as necessary (Q4 2020) Staff has reviewed the AASB FV ED. It includes guidance that addresses public sector specific challenges when applying fair value (such as highest and best use). The IPSASB has addressed this issue by developing the current cost measurement basis. As such, staff are of the view this guidance can further inform the IPSASBs measurement ED in Q4 2020 after the IPSASB has addressed

			conceptual issues, such as agreeing the concepts of current cost. That will allow staff clarify application.
FV 7	16	However, we see that the use of fair value in the understanding of IFRS 13 has some clear limitations in the public sector. The IPSASB should therefore be more explicit about the limitations of the use of fair value (e.g. concept of the highest and best use of an asset) in the public sector (either in the standard on Measurement or in a revised Conceptual Framework).	Issue Closed IPSASB decided when an entity plans to settle a liability at an amount other than the least costly amount, guidance in IPSAS 19 applies. See paragraph B7 of CP. See June Agenda Item 7.2.4.
FV 8	20	Although GA/CFC shares the view that fair value as defined in IFRS 13 is relevant, we believe that measuring the fair value of some non-financial assets held by public sector entities based on its highest and best use by market participants is controversial, because it may not appropriately reflect the relevant service potential of asset to the public sector entity (indeed, in order to achieve the public interest, an entity may intend not to use the asset according to its highest and best use).	
FV 9	22	Fair value guidance should be aligned as far as possible with IFRS 13. One exception would be 'highest and best use', which should be adapted to the public sector context.	
FV 10	24	<p>I believe that there are some gaps in the guidance. The revaluation of PPE seems to assume the replacement cost approach.</p> <p>In many situations of infrastructure assets, like roads this makes sense. However, we have numerous infrastructure assets in GBE's, for example electricity (generation, transmission and distribution), ports and water (generation (such as dams, recycling and desalination plants,) transmission and distribution). The GBE assets are valued on a net present value (fair value) basis in their own financial statements, and also on consolidation. My experience is that a replacement cost approach for these assets are a huge cost burden, and do not result in a value that is anywhere near the NPV value.</p> <p>I believe that such assets should be valued on an NPV approach, being either fair value or something close to it. However, we have encountered many practical problems with fair valuing such assets. One major problem is related to the exit price concept and having to address the hypothetical market participant when often no such entity exists. I would like to see fair value being used, i.e. using expected cash flows from operating the asset, without the additional complexities and cost burdens of the non-existent hypothetical market participant.</p> <p>While these assets are often subject to regulatory regimes and price capping, these caps are set for a</p>	

		<p>maximum of five years into the future. Then estimates need to be made of the future price caps from the end of the regulatory period for tens of years into the future.</p> <p>Fair value works well with level 1 or level 2 valuations, e.g. social housing where there are markets for similar residential housing.</p>	
FV 11	28	<p>More generally, the application of fair value in a public sector context creates particular difficulties in its application to non-financial assets and to liabilities where there is no direct evidence of a market price from which fair value should be determined. Such difficulties seem to be compounded because IFRS 13 does not always distinguish clearly between 'measurement', which requires an observable attribute, and 'estimation', which relies upon a subjective extrapolation from observable data (Barker and McGeachin, 2013)¹³. In circumstances where there is no active market for the precise type of assets or liabilities being 'measured', the fair value approach may rely upon a hypothetical valuation, which does not exist and does not represent the institutional reality of public sector bodies (for a private sector perspective see Barker and Schulte, 2017)¹⁴. If there are problems with IFRS 13 in the private sector, the prospects of its application in a public sector setting are not very encouraging.</p> <p>The following are some examples in Appendix A that may present difficulties (in the sense that they would present a series of bones of contention when attempting to apply them to the public sector context):</p> <p>a) A18 – “A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use ...”. It is argued that the highest and best use for a non-financial asset in the public sector may be social and/or cultural and may not even involve economic benefits. This problem is acknowledged by the IPSASB (par. 2.23, page 20). In addition, the interpretation of the market participants’ perspective, through which “highest and best use” is determined, could be influenced by political reasons. Such situations may lead to fictitious values being used under Fair Value measurement (Barker and Schulte, 2017).</p> <p>b) A21 – requires an entity to measure the fair value of a non-financial asset assuming its highest and best use by market participants even if the entity does not intend to use the asset according to its highest and best use. We believe that this may be a rather misleading way to value public sector assets because of the ambiguous message that the valuation would be providing, which may have dangerous political and social consequences.</p> <p>c) A22 (ii) – requires the valuation of the non-financial asset to “include liabilities that fund working capital, but do not include liabilities to fund assets other than those within the group of assets”. In a public sector context, however, most often it would be difficult to identify liabilities in this way because borrowing is usually done to finance operations in a general way and not to finance a particular group of assets. For example, the French law forbids attaching taxation revenues to specific uses of collected funds. Also in Germany, by definition, the nature of taxes refers to the taxation object without any consequences for their use (this is the</p>	

		<p>main difference between taxes and fees in Germany).</p> <p>d) A28 – requires that, on initial recognition, the difference between fair value and the transaction price is recognized in surplus/deficit (unless the particular IPSAS states otherwise). It may be argued that introducing such subjectivity, immediately at the point of recognition of an asset/liability, would cast a rather ‘shady’ doubt on the accountability of the reporting entity. Most often, this amount would not be realized or realizable, undermining the users’ need to understand and assess public sector entity financial sustainability.</p> <p>e) A42 onwards – refer to present value techniques, which would require the establishment of a discount factor. It may be argued that it is rather difficult and hazardous to establish an appropriate discount factor in the public sector context, in particular for more governmental- type of entities. It raises unaddressed concerns with pro-cyclical effects and self-fulfilling prophecies that were experienced already in the private sector (Biondi, 2012). The use of discount factors would introduce a high level of subjectivity, especially when measuring long-term liabilities like pension obligations, as illustrated by the UK case study (Biondi, 2016). In order to reduce such subjectivity, a discounting regulation was released in Germany, for the private sector, specifying the method which the German Bundesbank should apply when calculating discount rates for the valuation of pensions. In the public sector (Standards staatlicher Doppik, which can be applied on Federal [central] or state [Länder] Level), an institution has been set up to prescribe discount factors for provisions that are adjusted on an annual basis. Such developments at country level make the requirement of IPSAS guidance more important for the sake of comparability.</p> <p>f) A89 – “An entity’s intention to hold the asset or to settle or otherwise fulfil the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.” Similar arguments as in (b) and (d) apply.</p> <p>The valuation techniques mentioned in A37 and A38 are quite technical. Some examples to illustrate their application in a public sector context would be appreciated.</p> <p>We agree with the stance taken by the IPSASB as to how to deal with fair value, as described in footnote 29 (page 35). In its evaluation, the IPSASB should take into consideration the discussions and issues that have already been highlighted by the UK FRAB in its attempt to adapt IFRS 13 for the public sector context.</p>	
FV 12	29	<p>HoTARAC recommends that the application guidance considers circumstances in which it may be difficult for public sector entities to apply. For example, it can be difficult to apply the concept of a principal market when there is no market for many public sector assets.</p>	<p>ED 77 Updated</p> <p>A public sector specific measurement basis, current cost, has been developed. This basis de-emphasizes the requirement to use the</p>

			market approach.
FV 13	31	Editorial Note: In paragraph A31, consider if “A41-A42” should be replaced with “A36-A42”.	ED 77 Updated Paragraph references have been updated.

Unedited Responses – Fulfilment Value

Issue Number	Response Number	Issue	Status
FV 1	04	<p>There is a risk that the proposed measurement standard will inappropriately stray into Conceptual Framework territory. It also runs the risk of inappropriately limiting future standards-level discussions or conflicting with current standards. For example, the IPSASB's views on the appropriateness of a risk premium in current value measures for liabilities needs to be thought through before developing any generic guidance. If the IPSASB considers that a risk premium might not be appropriate in some instances, then both the measurement bases identified and any generic guidance relating to that measurement basis should reflect this. The review of the Conceptual Framework needs to occur before, or at the same time as the development of the measurement standard, to make sure that the guidance is both appropriate and appropriately located.</p> <p>The CP proposes to update the term cost of fulfilment currently applied in the IPSASB Conceptual Framework with fulfilment value. The CP states that this is to align with the terminology used in the IASB 2018 Conceptual Framework. Our view is that this is not merely a change in terminology. The illustrative ED proposes that fulfilment value should include a risk premium (also referred to as a risk adjustment). Although, the IPSASB Conceptual Framework is silent on this matter, the Basis for Conclusions on IPSAS 42 Social Benefits states that cost of fulfilment does not include a risk adjustment. The appropriateness of including a risk margin for the liabilities of public sector entities has been the subject of much debate in New Zealand. We think the IPSASB needs to consider in more detail whether it wants to adopt a measurement basis that includes a risk premium, why a risk premium is (or is not) appropriate, how the risk premium should be calculated (in general terms) and any implications for existing standards.</p> <p>Fulfilment value, as described in the IASB 2018 Conceptual Framework, includes a risk premium. The risk premium (for a liability) is described as being “the price for bearing the uncertainty inherent in the cash flows”. Paragraph 6.20 of the IASB 2018 Conceptual Framework clarifies that in the case of fulfilment value the risk premium is determined from an entity-specific perspective whereas in the case of fair value it is determined from a market-participant perspective.</p> <p>Appendix B of the CP indicates that the fulfilment value of a liability is to include a risk premium (see paragraphs B12–B13 and B37 shown below – emphasis added).</p> <p>B12. The fulfilment value is an entity specific value. An entity shall measure the fulfilment value of a liability using the assumptions from the entity's perspective, assuming the entity acts in its own economic best interest.</p> <p>B13. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity</p>	See Agenda Item 7.2.3

		<p>and the liability, considering factors specific to all the following:</p> <ul style="list-style-type: none"> (a) The liability; (b) The entity's expectations about the amount and timing of future outflows of resources; (c) The time value of money; and (d) The risk that the actual outflow of resources may ultimately differ from those expected (i.e., a risk premium). <p>...</p> <p>B37. An entity shall apply judgement when determining an appropriate risk adjustment technique to use. If a risk premium were not included, the measurement would not faithfully represent the cost to fulfill the liability. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.</p> <p>This contrasts with the description of cost of fulfilment in the IPSASB Conceptual Framework which does not mention a risk premium. It also conflicts with the Basis for Conclusions on IPSAS 42 Social Benefits (see paragraph BC152 shown below) which states that cost of fulfilment does not include a risk adjustment.</p> <p>BC152. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfillment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.</p> <p>Given that the inclusion of a risk premium or risk adjustment in liability measures has been a much debated topic in the public sector, the IPSASB needs to critically assess whether it wants to adopt a measurement basis that includes a risk premium, why a risk premium is appropriate, and from whose perspective the risk premium should be calculated.</p> <p>Any change in the IPSASB's views about the appropriateness of a risk premium in an entity-specific liability measure would be a significant change that should be highlighted in due process documents.</p> <p>In addition to wanting to know why the IPSASB is proposing to make this change, we would need to see the proposed amendments to other standards that could be affected by this change, such as IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets and IPSAS 39 Employee Benefits, before we could comment on the appropriateness of this guidance.</p>	
FV 2	07	<p>Paragraph B10 indicates that the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the obligation. It could be onerous to determine what the potential cost would be to settle the liability internally and seems impractical if an entity is not able to fulfil the obligation using internal capacity. The measurement of liabilities on this basis also does not appear to provide</p>	<p>Issue Closed</p> <p>IPSASB decided when an entity plans to settle a liability at an amount</p>

		users of the financial statements with relevant information as the entity will record a liability at a lower amount when it knows that it will not settle it in the manner on which the measurement is determined. While we agree that the least costly amount should be used, it should be constrained by how the entity plans to settle the liability.	other than the least costly amount, guidance in IPSAS 19 applies. See paragraph B7 of CP. See June Agenda Item 7.2.5.
FV 3	07	The linkages between this Appendix and existing Standards is unclear. Will the text explaining fulfilment value be removed from IPSAS 19 and IPSAS 42?	ED 77 Updated Generic measurement guidance from all IPSAS has been moved to ED 77.
		Paragraph B1(c) - Is it necessary to separately list the timing of settlement? This is inherently part of the valuation technique.	ED 77 Updated Timing of settlement has been removed as it is included in the valuation technique identified in (d).
		Paragraph B14 - Consider deleting the last sentence as it does not add anything. If this sentence is deleted, consider combining B14 and B15.	ED 77 Updated Last sentence deleted as it is repeated in B15.
		Paragraph B22 - Reference is made to the 'current counterparty'. The counterparty may not be known, which is often the case for provisions. An example is the payment of contractors for a remediation liability. The specific contractors may not be known when the provision is recognised so the identification of the 'current counterparty' seems impractical.	ED 77 Updated Reference to current counterparty removed as it may be unknown for decommissioning liabilities.
		Heading: 'Income Approach' – consider changing the formatting as the next discussion on 'present value techniques seems to be part of the 'income approach'.	ED 77 Updated Present value techniques are an

			income approach. Formatting will be reviewed for ED.
		Paragraph B36 - For (b), consider changing the term 'contracts' to 'liabilities'.	ED 77 Updated AG is applicable beyond "contracts". Wording updated for "liabilities".
		Paragraph B48 - Reference is made to 'current information at the end of the reporting period' – This implies that estimates are only made at year end which may not always be the case (e.g. public sector combinations).	ED 77 Updated The term "measurement period" has been applied throughout.
FV 4	11	<p>Risk adjustment</p> <p>The rationale for a risk adjustment stated in paragraph B33 of Appendix B is that "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 the liability". We note that IPSAS 1 Presentation of Financial Statements requires disclosures about the sources of measurement uncertainty; this requirement already provides users with additional information on estimates that is useful for accountability and decision-making.</p> <p>We understand that the purpose of the proposed risk premium is to adjust the liability to reflect the amount of compensation the entity would require so that it is indifferent between variable and fixed cash flows. However, adding a risk premium results in an estimation of the liability that is at the higher end of a range rather than a central estimate. Consequently, we question whether the risk premium provides faithfully representative and relevant information to users about the extent of the entity's obligations to be settled in the future:</p> <p>In general, we find the guidance in the illustrative ED on the risk premium for fulfillment value to be overly complex and lacking in clarity.</p> <p>We believe that adding a risk premium may conflict with the objective of the fulfillment value measurement basis, which is to reflect the costs the entity will incur in fulfilling the obligation, assuming it does so in the least costly manner. Where the fulfillment value depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.</p> <p>In our opinion, adding a risk premium does not reflect the least costly manner to fulfill the liability, and reflects a</p>	See Agenda Item 7.2.3

		<p>bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.</p> <p>We question the appropriateness of the adaptation of the guidance from IFRS 13:</p> <p>The fair value guidance in IFRS 13 (contained in Appendix A to the illustrative ED) requires a risk adjustment because market participants would require compensation for the uncertainty inherent in the future cash flows.</p> <p>The proposed guidance in paragraphs B14 and B15 related to a risk premium for fulfillment value requires the use of market-based assumptions that may not be relevant to a public sector entity.</p> <p>We also question the appropriateness of the adaptation of the guidance from IFRS 17 Insurance Contracts:</p> <p>We note that some of the proposed text is drawn from IFRS 17 Insurance Contracts (IFRS 17, paragraphs B87, B90-92). However, IFRS 17 specifically requires the addition of a risk premium for non-financial risk, on the basis that financial risks are included in the estimation of the future cash flows or the discount rate.</p> <p>Conversely, paragraph B34 of the ED states that the risk adjustment should reflect all risks associated with the liability other than general operational risk.</p> <p>Consequently, it appears that financial risks would be double-counted by adding a risk premium to public sector liabilities measured at fulfillment value. As well, determination of whether there are other types of risks for which a risk premium could be relevant in the context of fulfillment value needs clarification.</p> <p>Consequently, we believe that more guidance and discussion is required on the appropriateness of adding a risk premium for liabilities measured at fulfillment value, and that criteria be developed for identifying public sector transactions where its inclusion in the measurement of the liability is relevant. As well, the use of market-based risk adjustments may not be appropriate and, therefore, guidance on establishing a risk adjustment that is relevant to public sector entities should be developed.</p>	
FV 5	14	<p>22. Paragraph B18 explains how transaction costs are accounted for but we believe it would be more useful to have transaction costs as a specific heading in each of the measurement bases? Appendix D has done this (D27) but none of the other appendices have, so at a minimum there is a consistency issue that should be reviewed.</p>	<p>ED 77 Updated</p> <p>"Transaction costs" header removed from replacement cost AG for consistency.</p>
		<p>23. We do not think the application of entity-specific values is well explained in paragraphs B14 and B15, in particular the relationship between market and entity based assumptions. For example, in paragraph B13, it states that the assumptions on the time value of money and risk premium are entity specific. Then paragraphs B14 and B15 say that the estimates should be market based and that the entity specific estimate should be the same as a market participant's estimate. B14 contains some typographical errors that need to be rectified.</p>	<p>ED 77 Updated</p> <p>Paragraph clarified to indicate some entity specific assumptions may be consistent with a</p>

			market participant.
		24. Paragraphs B13 to B15 refer to risk premiums that an entity needs to estimate and it may be helpful to signpost that further explanations and examples are provided in Appendix A.	ED 77 Updated Risk premium has been removed. See Agenda Item 7.2.3
FV 6	15	Most notably, we do not agree with the proposal to switch from cost of fulfilment to fulfilment value, as it is more than just a change in terminology. For example, the Illustrative ED proposes that fulfilment value should include a risk premium (also referred to as a risk adjustment). Although the IPSASB Conceptual Framework is silent on this matter, the Basis for Conclusions on IPSAS 42, Social Benefits states that cost of fulfilment does not include a risk adjustment. The appropriateness of including a risk margin for the liabilities of public sector entities has been the subject of much debate in New Zealand. This suggests that the new term fulfilment value being proposed is different to the extant term cost of fulfilment.	See Agenda Item 7.2.3
FV 7	19	However, we consider that the link to IPSAS 19 Provision, Contingent Liabilities and Contingent Assets should be further explained. From our experience, fulfilment value is the measurement base that underpins the measured under IPSAS 19. The examples (legal claim and decommissioning liability) included in the illustrative ED seem to confirm that fact as they would fall in the scope of IPSAS 19.	ED 77 Updated Generic measurement guidance from all IPSAS has been moved to ED 77.
		Paragraph B7 indicates that there are two layers in estimating the value of a liability: in a first step, an entity apply fulfilment value for the amount to fulfil the cost, and in a second step IPSAS 19 for the excess of the cost to fulfil. “The fulfilment value represents the amount the entity is obligated to incur to settle the liability. This obligation represents the minimum amount an entity will incur assuming the entity completely satisfies its obligation. For example, an entity may have an obligation to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfil the minimum obligation of restoring the land to its original condition and therefore are not representative of the cost to fulfil the liability. In cases where an entity intends to fulfil the liability beyond its commitment, guidance in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, should be applied when accounting for amount in excess of the cost to fulfil.”	No change proposed Staff propose developing IEs to illustrate the principle. The response implies the entire liability is in scope of IPSAS 19. This may not be the case.

		<p>The EC considers that IPSAS 19 would apply entirely to the examples provided in paragraph B4 and the best estimate of the expenditure required by IPSAS 19 would have to be applied in measuring the liability. This is particularly relevant since the proposed guidance for fulfilment value seems to overlap the guidance on measurement available in IPSAS 19, in particular due to the use of 'least costly manner' to settle the obligation, compared to the 'most likely amount' required by IPSAS 19 in computing the best estimate of the expenditure. Even though the current contradiction may already exist – since the 'least costly manner' is referred to in IPSAS CF, in practice IPSAS 19 requirements override the IPSAS CF in accordance with paragraph 9 of IPSAS 3. If the illustrative ED becomes an IPSAS, uncertainty will arise as to which standard should first be applied in terms of measurement of such liabilities.</p> <p>Consequently, we suggest that the IPSASB should clarify the interaction between the new guidance on fulfilment value and IPSAS 19.</p>	
		<p>Moreover, in our view, it seems to be a contradiction between guidance in B9 and B10 (B11). While under B9 it is presumed that the least costly manner is the one in which the entity has selected to release itself from the obligation, B10 seems to indicate that this only applies when the entity would do the work by itself, while if this is contracted out – the least costly manner has to be proven.</p>	
FV 8	24	<p>Fulfilment value appears to mainly (or even solely) to liabilities and provisions. Given there is already an accounting standard on accounting for provisions, I do not see the point of moving the requirements to another standard.</p> <p>I found the changes very confusing, as I could not work out what was changing. I also believe there is a risk of changes that would result in differences to IFRS for no good reason. I believe fulfilment value is better left where it is. The IASB is currently conducting research as to what changes should be made to their standard given the change in their conceptual framework.</p> <p>The IASB undertook some proposed changes to the provisions standard in 2005 and 2010. I have not analysed whether any of the proposed changes, and the reasons for not proceeding with the changes, are relevant to this topic. From memory, there were issues with recognising a liability for the lower of fulfilling the liability by the entity compared to transferring to a third party.</p> <p>Other comments Paragraph 4.19 currently states: (b) For liabilities where the settlement amounts are uncertain and the timing is unknown</p> <p>The wording should be whether the amounts are uncertain or (emphasis added) timing is unknown.</p>	<p>Issue Closed</p> <p>IPSASB decided guidance should be developed for the commonly applied measurement bases in IPSAS. See <u>June</u> Agenda Item 7.2.5.</p>
FV 9	25	<p>In addition, we note that IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets requires that liabilities should be measured at "best estimate" or present value. As a consequence, we would recommend</p>	<p>No change proposed</p> <p>There is no contradiction</p>

		that the IPSASB should elaborate on how cost of fulfilment would articulate with “best estimate”. We are wondering whether the proposed change is only to update the terminology and definition or if it might bring unintended consequences.	<p>between best estimate and least costly amount.</p> <p>Best estimate relates to the probability of the liability (expected value is another method).</p> <p>Least costly amount relates to the amount of the liability.</p>
FV 10	26	<p>I feel more guidance /discussion is required on Demolition & Disposal. When asset replacement occurs in the same exact location, then demolition and disposal of the previous asset is accounted for in the replacement cost of the new asset. An example would be renewal of road pavement where the existing asset is milled prior to placement of the new. These milling costs become part of the replacement cost of the new pavement.</p> <p>In many circumstances the replacement asset is located elsewhere, for example when a bridge is replaced, it is common to realign the road so construction can occur while the existing asset can continue to be used. Demolition and disposal of the existing road/bridge is generally not part of the replacement contract and not included as part of the replacement cost of the new asset. However, the liability for the demolition and disposal of the old asset remains. I presume that this would fall into this category of fulfilment value.</p> <p>From an intergenerational equity perspective, that liability should fall to the users of that facility, not the users of the new facility. Hence that fulfilment liability needs to be accounted for when the old asset is in use and not wait until the new asset is in use.</p> <p>Again, this may be an issue worth exploring as part of the IPSASB's infrastructure assets project.</p>	<p>No change proposed</p> <p>This is not a contradiction. If an entity has to incur costs in constructing a new asset, those may be included in the initial cost of the asset. The entity may also have a liability.</p> <p>Fulfilment value is used exclusively for liabilities. Replacement cost is used exclusively for assets.</p>
FV 11	28	<p>Appendix B 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, taking into consideration the following comments:</p> <p>a) There appears to be a conflict between B9 and B10 about the least costly manner of settlement.</p>	<p>No change proposed</p> <p>B9 and B10 are consistent.</p>
		<p>b) With reference to B12, as we already pointed out, sometimes a public sector entity cannot act “in its own economic best interest”; therefore, this assumption may need to be revised.</p>	<p>ED 77 Updated</p> <p>Since public sector entities do not always</p>

			consider their economic interests, the term has been replaced with “public sector objective”.
		c) B19 should refer to IPSAS 19 (similar to B7). d) The subjectivity required to calculate the Risk Adjustment (B32-B37) may have a negative impact on the level of accountability and may give misleading notions about the fulfilment value of a liability due by a public sector entity to a private third party.	No change proposed B7 references to IPSAS 19 because it relates to identifying another liability. The suggestion to reference B19 to IPSAS 19 is not appropriate because this would relate to measurement. All generic measurement guidance is in the ED.
FV 12	31	<ul style="list-style-type: none"> The definition includes an assumption that an entity will fulfill its obligations in the least costly manner. Does this assumption always make sense in the public sector? There may be policy reasons why an obligation may not be settled at the least costly amount. For example, regional development objectives may require that a costlier option be chosen. Similarly, paragraph B12. includes an assumption that the entity acts in its own economic best interest. Public sector choices may not always be in the economic best interest but may satisfy other policy objectives. We suggest the IPSASB discuss the description of fulfillment value in terms of public sector objectives to determine if the proposed definition and related text in Appendix B appropriately reflect the multiple objectives of public sector entities. 	ED 77 Updated Since public sector entities do not always consider their economic interests, the term has been replaced with “public sector objective”. No change proposed for least costly manner. When a more costly manner is selected B7 applies and the liability has 2 components (least costly and IPSAS 19 provision)
		<ul style="list-style-type: none"> Consider if fulfillment value is a way to estimate the “historical cost” of a liability rather than a separate 	No change proposed

		measurement basis.	Comment highlights initial measurement guidance. HC guidance has been updated to reflect both initial and subsequent measurement (see Agenda Item 7.2.15).
		<p>o The definition of fulfillment value in paragraph 6 of the illustrative ED implies that it is a cost-related attribute as follows: "Fulfillment value is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."</p> <p>o We question if fulfillment value is a measurement basis as it includes an assumption. Should measurement bases include assumptions? Or do only valuation or estimation techniques require assumptions as inputs for measuring an item?</p>	<p>No change proposed</p> <p>Assumptions exists in all measurement bases. Fair value assumes highest and best use for example.</p>