

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: October 27, 2022

Agenda Item 2

For:

☐ Approval

☒ Discussion

☐ Information

MEASUREMENT

Project summary	The project objective is to revise IPSAS requirements for measurement, provide guidance on measurement and address the treatment of transaction costs and borrowing costs.	
Drafting Group	<ul style="list-style-type: none"> • Ian Carruthers, IPSASB Chair (Drafting Group Chair) • David Watkins, Task Force Chair • Abdullah Al-Mehthil, IPSASB Member • Todd Beardsworth, IPSASB Member • Lynn Pamment, IPSASB Member • Scott Showalter, IPSASB Member • Andrew van der Burgh, Technical Advisor • Francesco Capalbo, Task Force Member • Takeo Fukiya, Task Force Member • Jonathan Fothergill, Task Force Member • Elles Mukunyadze, Task Force Member 	
Meeting objectives	Topic	Agenda Item
Project management	Measurement: Project Roadmap	2.1.1
	Instructions up to Previous Meeting	2.1.2
	Decisions up to Previous Meeting	2.1.3
Decisions required at this meeting	Process to develop COV Guidance	2.2.1
	Clarification of COV Guidance	2.2.2
	COV Definition	2.2.3
Other supporting items	COV Guidance (Clean)	2.3.1

**MEASUREMENT:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2019	1. Approve Consultation Paper and Illustrative Exposure Draft
June 2019 – September 2019	1. Document Out for Comment
December 2019	1. Preliminary Review of Responses to Consultation Paper
March 2020	1. Review of Responses to Consultation Paper 2. Discussion of Issues
June 2020	1. Discussion of Issues
September 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft
December 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft
April 2021 – October 2021	1. Document Out for Comment
December 2021	1. Preliminarily Review of Responses
March 2022	1. Review Responses 2. Discuss Issues
June 2022	1. Review Responses 2. Discuss Issues
September 2022	1. Discuss Issues
December 2022	1. Issue Pronouncement

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2022	1. Articulate in the Basis for Conclusions how an entry price may equal an exit price (provided there are no transaction costs)	1. In progress
	2. Ensure consistency exists in the 'unit of account' guidance across the Measurement, Property, Plant, and Equipment, and the Conceptual Framework projects	2. In progress
	3. Explain how the 'existing location' principle applies to the valuation of a movable asset that is loaned to another institution	3. See paragraph B12 of [draft] IPSAS [X], Measurement .
	4. Update the COV Appendix, and the corresponding definition, in [draft] IPSAS [X], <i>Measurement</i> , to reflect the principles agreed to by the IPSASB	4. See Agenda Item 2.2.2 and Agenda Item 2.2.3
	5. Amend the comparison in the table based on IPSASB instructions	5. In progress
	6. Confirm the market and cost approaches as set out in [draft] IPSAS [X], <i>Measurement</i> are consistent with IFRS 13, <i>Fair Value</i>	6. In progress
	7. Clarify, in the decision tree, whether surplus capacity can be used either for its financial or operational capacity	7. In progress
	8. Update the decision tree based on Board discussions	8. In progress
March 2022	1. Clearly indicate whether the reference to "historical cost" is to the model or the basis throughout [draft] IPSAS [X], <i>Measurement</i>	1. In progress

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2022	1. Assets should be valued in their existing location when applying Current Operational Value (COV)	1. In progress
	2. An entry price should be used when applying COV	2. In progress
	3. The income approach should be removed as a measurement technique for COV	3. In progress
June 2022	1. Fair Value guidance in the final standard should be aligned with IFRS 13, and so a separate public sector measurement basis is required	1. In progress
	2. The public sector measurement basis will value the asset based on the physical, or underlying, items that comprise the asset, rather than the services or benefits derived from the asset	2. In progress
	3. The development of a public sector measurement basis should be based on the Current Operational Value principles proposed in ED 77. Each principle will be reviewed for applicability in the public sector context	3. In progress
	4. Fair value should not be required to measure assets held for their operational capacity as it may not provide users with the most useful information	4. In progress
	5. The 'current asset' and 'existing use' principles are core to Current Operational Value and should be retained	5. In progress
	6. The wording proposed by staff to clarify that the income approach is the only technique available to estimate the Cost of Fulfillment in paragraph D22, is appropriate	6. In progress
	7. The insertion of the new paragraphs 54, 55, and BC72 to indicate the Board's decision to maintain the disclosure requirements in the individual IPSAS, is appropriate	7. In progress
	8. The updates made to BC23A–BC23D and IGB2, to clarify the selection of the accounting policy, were appropriate	8. In progress
March 2022	1. The fair value principles proposed in ED 77 are appropriate in developing [draft] IPSAS [X], <i>Measurement</i>	1. In progress
	2. The cost of fulfillment principles proposed in ED 77 are appropriate in developing [draft] IPSAS [X], <i>Measurement</i>	2. In progress

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	3. The location of the disclosure requirements proposed in ED 77 is appropriate in developing [draft] IPSAS [X], <i>Measurement</i>	3. In progress
	4. The current value disclosure application table should be inserted in the applicable IPSAS as part of the amendments to other IPSAS	4. In progress
	5. The Board is content with the guidance provided in ED 77 and is not recommending any amendments thereto. A BC should be added to note the Board's comments	5. In progress
	6. A BC should be added to IPSAS 33 to clarify "deemed cost" guidance in [draft] IPSAS [X], <i>Measurement</i> applies to IPSAS 33	6. In progress
	7. The Board supported the recommendation to insert Appendix A of Agenda Item 9.2.7 in the relevant IPSAS in which current value measurement disclosures are expected to be substantive for the preparers of the annual financial statements	7. In progress
	8. The Board supported the recommendations suggested in Agenda Item 9.2.8	8. In progress
February 2021	1. All decisions made up until February 2021 were reflected in ED 77, Measurement	1. All decisions made up until February 2021 were reflected in ED 77, Measurement

Process to Develop COV Guidance

Purpose

1. To provide an overview of the process followed in actioning the IPSASB's September 2022 current operational value (COV) instructions.

Background

2. At its June and September 2022 meeting, the IPSASB agreed the following principles were applicable to COV:

(a)	Existing asset	June 2022
(b)	Existing use	June 2022
(c)	Existing location	September 2022
(d)	Entry price	September 2022
(e)	Least costly manner	Supported by respondents
(f)	Current market conditions	Supported by respondents
(g)	Market inputs	Supported by respondents
(h)	Entity specific perspective	Supported by respondents
3. The IPSASB agreed these principles are relevant to fairly present the unique aspect of assets held for their operational capacity by public sector entities.
4. The IPSASB instructed staff to update the COV Appendix, and the corresponding definition, in [draft] IPSAS [X], *Measurement*, to reflect the principles agreed to by the IPSASB.

Process

5. Staff performed the following to action the IPSASB's instruction:

Step one	Reviewed the 'COV principle' decisions made by the IPSASB at its June and September 2022 meetings – see paragraph 2.
Step two	Reflected the 'COV principle' decisions in [draft] IPSAS [X], <i>Measurement</i> (based on ED 77, Measurement proposals) – see Agenda Item 2.2.2 .
Step three	Developed the COV definition based on changes proposed in step two – see Agenda Item 2.2.3 .
Step four	Re-ordered the COV guidance in [draft] IPSAS [X], <i>Measurement</i> to align with definition in step three.
Step five	The Drafting Group reviewed staff proposals in step two, step three, and step four on October 13.
Step six	Addressed Drafting Group comments in [draft] IPSAS [X], <i>Measurement</i> and prepared Agenda Items for IPSASB review.

Decision Required

6. No decision required.

Clarification of COV Guidance

Question

1. Does the IPSASB agree the COV guidance in [draft] IPSAS [X], *Measurement*, clearly reflects the principles agreed by the IPSASB?

Recommendation

2. Staff and the Drafting Group recommend the changes proposed to [draft] IPSAS [X], *Measurement*, clearly reflect the COV principles agreed by the IPSASB.

Background

3. At its September meeting the IPSASB instructed staff to update the COV Appendix in [draft] IPSAS [X], *Measurement*, to reflect the principles agreed upon by the IPSASB at its June and September 2022 meetings.

Analysis

4. In updating the COV guidance in [draft] IPSAS [X], *Measurement*, staff compared:
 - (a) The COV guidance proposed in [ED 77, Measurement](#); with
 - (b) The COV principles agreed on by the IPSASB at its June and September meetings.
5. The COV guidance in [draft] IPSAS [X], *Measurement*, was either updated to:
 - (a) Add new COV principles agreed to by the IPSASB; or
 - (b) Clarify existing COV principles confirmed by the IPSASB.
6. Changes to reflect the IPSASB 'COV principle' decisions in [draft] IPSAS [X], *Measurement*, are tracked in [Appendix A](#) of this Agenda Item (a clean version is provided in the supporting materials – [Agenda Item 2.3.1](#)). Changes to re-order paragraphs for alignment with the proposed COV definition in [Agenda Item 2.2.3](#) are not tracked.¹ The process was followed to illustrate the impact of the IPSASB decisions on the COV proposals in ED 77.
7. Based on the changes proposed, staff's view is the principles in [draft] IPSAS [X], *Measurement*, are consistent with those proposed in [ED 77](#).
 - (a) The IPSASB allocated significant plenary time at its June and September meetings to identify measurement principles that would provide users of financial information with useful information to make decisions related to public sector assets. The Board evaluated principles based on the information they provided users when assets held for their operating capacity are measured.
 - (b) The IPSASB addressed responses to [ED 77](#) recommending a current value public sector specific measurement basis was needed to address the challenges in applying fair value to public sector assets and the recommendation to clarify the COV principles proposed in [ED 77](#).

¹ Members can track the re-ordered paragraphs by comparing the ED paragraph number in the first column of [Appendix A](#) to the [draft] IPSAS [X], *Measurement*, paragraph number in column two of [Appendix A](#).

- (c) The IPSASB's diligence has confirmed the principles proposed in [ED 77](#). In addressing respondents' recommendations, the IPSASB has greatly clarified the principles which are reflected in [draft] IPSAS [X], *Measurement* (see Appendix A).
- 8. Given the COV text in [draft] IPSAS [X], *Measurement* has only been updated to reflect the 'COV principle' decisions, the Drafting Group will be engaged after the Check-In meeting to tighten the remaining text.

Decision Required

- 9. Does the IPSASB agree with the Staff and Drafting Group [recommendation](#)?

Appendix A – COV Appendix (Tracked Changes)

This appendix includes a tracked changes version of the COV Guidance (Appendix B of ED 77). Changes are tracked from [ED 77, Measurement](#), proposals.

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Appendix B: Current Operational Value <i>This Appendix is an integral part of [draft] IPSAS [X] (ED 77).</i>	
	Measurement	
B1	<p>B1. The objective of a current operational value measurement is to estimate the value amount an entity would pay for of a non-financial asset in achieving <u>based on its existing use, to achieve</u> the entity's service delivery objectives at the measurement date. A current operational value measurement requires an entity to determine all of the following:</p> <ul style="list-style-type: none"> (a) The asset that is the subject of the measurement (consistent with its unit of account). (b) The current-existing use of the asset by the entity. (c) The measurement technique(s) appropriate for estimating the entry price amount an entity would pay for of the asset based on its current-existing use, considering the availability of data with which to develop inputs that represent the assumptions that are specific to the entity. 	<p><i>Based on FV AG for consistency (COV is entity specific / FV is from market participants perspective)</i></p> <p><i>Includes aspects of D1 of deleted RC AG.</i></p>
B2	<p>B2. Current operational value presents an entity specific measurement <u>measures the value, to the entity</u> of an asset, held for its operational capacity in its <u>existing</u> current use.</p> <ul style="list-style-type: none"> (a) In the statement of financial position, current operational value reflects the amount an entity would incur pay at the measurement date to acquire for its existing assets to be able to continue to achieve its present service delivery objectives. (b) In the statement of financial performance, current operational value reflects the value of the assets consumed in providing the service at the prevailing prices <u>based on current market conditions</u>. This differs from historical cost which reflects consumption of the assets in terms based on <u>of</u> the prices that prevailed when the assets were was <u>acquired</u> and initially recognized. 	-

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<u>The Asset</u>	—
B5	<p>B3. Current operational value measures the value of an asset, or group of assets, used in supporting the achievement of an entity's present service delivery objectives. The following key aspects affect the measurement of an asset's current operational value:</p> <p><u>(a) The existing asset;</u></p> <p><u>(b) The existing use of the asset;</u></p> <p><u>(c) The existing Location of the asset;; and</u></p> <p><u>(a)(d) The remaining service potential of the asset.</u></p> <p>(b) Entity-specific value;</p> <p>(c) Surplus capacity;</p> <p>(d) Restrictions; and</p> <p>The least costly manner to achieve its service delivery objectives.</p>	—
<u>New</u>	<u>B4. Current operational value assumes the entity will continue to meet its service delivery objectives by using the same, or a similar, asset based on its existing use.</u>	—
<u>New</u>	<u>B4-B5. Current operational value estimates the amount required to replace the asset to provide the entity's service delivery objectives</u>	-
	<u>Existing Use of the Asset</u>	—
B3	<p>B5-B6. An asset supports an entity in achieving its service delivery objectives in its current-existing use. 'Current Existing use' is the way an asset or group of assets is used. Current Existing use and generally reflects the service delivery policy objectives of the entity operating the asset. For example, a Ministry of Health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to achieve the policy-entity's service delivery objective rather than for commercial purposes.</p>	<p>Based on IVS 150.1</p> <p>Based on D14 of deleted RC AG</p>
B4	<p>B6-B7. Measuring the existingcurrent use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, <u>the existing use of</u> a building operated as a school, currently used as is a school for the delivery of educational services. Alternative uses, such as the operation of the building as an office block held for</p>	Based on IVS 150.1

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	rental at market rates are not considered. The current <u>existing</u> use may be, but is not necessarily, the highest and best use.	
<u>B13</u>	<u>B8.</u> Many assets are subject to restrictions on their use or sale and/or the price an entity can charge users of the services provided by the asset. Such restrictions are unlikely to impact the current operational value of an asset because the restriction(s) is already taken into account in how the asset is currently used, or has no impact on the asset's current use.	
<u>New</u>	<u>B9.</u> Any portion of the asset that is surplus to the existing use of the asset is evaluated to determine whether the surplus portion is held for a specific purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, and/or functional limitations. Portions of the asset that are surplus to its existing use, but would be replaced, are included in current operational value. For example, a building operated as a school may have additional capacity than what is required for the ongoing delivery of educational services. Where this additional capacity would be replaced because it serves the community as an evacuation center in case of emergencies, the capacity would be included when measuring the asset's current operational value.	
	<u>Existing Location of the Asset</u>	<u>-</u>
<u>B6</u>	<u>B10.</u> The asset's current operational value assumes that the entity will continue to meet its service delivery objectives from the same location in which the asset is currently situated or used.	<u>-</u>
<u>B7</u>	B7. <u>B11.</u> The current operational value of an <u>asset that cannot be moved-building</u> reflects the value of the <u>building immovable asset</u> in its current-existing location. For example, a hospital operating in a city center that could now be situated in the suburbs, because of the migration of the population, is measured based on the value <u>amount an entity would pay for -of</u> the hospital in its current existing location (e.g., if the cost approach is applied the amount required to replace a building includes- construction costs, permits, regulations, etc. are based on costs incurred-that would be paid at the current-existing location).	- -

ED Para	DRAFT IPSAS XX, Measurement	Original Source
<u>New</u>	<u>B12. The current operational value of a movable asset reflects the location from which the entity uses the asset. For example, the furniture and equipment in a hospital operating in a city center is measured based on the amount an entity would pay for furniture and equipment for that hospital.</u>	—
	<u>Service Potential</u>	—
<u>New</u>	<u>B13. Current operational value presents the value of the remaining service potential of the asset. The remaining service potential of the asset reflects the current age and condition of the asset held by the entity.</u>	—
<u>New</u>	<u>B14. The value of an asset is impacted by its remaining service potential through factors including physical, functional, economic obsolescence.</u>	—
B5	B8. Current operational value measures the value of an asset, or group of assets, used in supporting the achievement of an entity's present service delivery objectives. The following key aspects affect the measurement of an asset's current operational value: (e) Location of the asset; (f) Entity-specific value; (g) Surplus capacity; (h) Restrictions; and (i) The least costly manner to achieve its service delivery objectives.	
	<u>The Amount</u>	
<u>New</u>	<u>B15. Current operational value is the amount that an entity would pay to replace an asset in the least costly manner, in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an entry price) regardless of whether that price is directly observable or estimated using a measurement technique.</u>	<u>Based on IFRS 13.24</u>
	<u>Current Market Conditions</u>	
<u>New</u>	<u>B16. Current operational value provides monetary information about assets and related amortization, depreciation, etc., using current information about the amount an entity</u>	

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<u>would pay for an asset in existing use, updated to reflect conditions at the measurement date.</u>	
<i>New</i>	<u>B17. An orderly transaction allows for activities that are usual and customary for transactions involving the assets being measured. Orderly transactions are not forced and do not occur under duress.</u>	<i>Based on Appendix A of IFRS 13.</i>
<i>New</i>	<u>B18. The principal market is the market with the greatest volume and level of activity for the asset being measured at the measurement date.</u>	<i>Based on Appendix A of IFRS 13.</i>
	The Least Costly Manner	
<i>B18</i>	B9-B19. A current operational value measure assumes the amount an entity would <u>incur pay for the asset</u> at the measurement date to be able to continue to achieve its service delivery objectives using its current assets is incurred in the least costly <u>amount to replace the asset's remaining service potentially</u> manner. For example, using a modern equivalent asset to estimate the current operational value requires identifying a notional asset using the latest technology available. However, the latest technology available does not imply the most advanced technology available, as this may not be the least costly manner to achieve the entity's service delivery objective.	<i>Based on D23 of deleted RC AG</i>
<i>B19</i>	B10-B20. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.	<i>Based on D26 of deleted RC AG</i>
<i>B20</i>	B11-B21. Current operational value reflects the amount an entity would <u>incur pay for the existing asset</u> to be able to continue to achieve its present service delivery objectives <u>using its existing assets in the ordinary course of operations</u> , and not the costs that might be incurred if an urgent necessity <u>to replace the asset</u> arose as a result of some unforeseeable event.	<i>Based on D26 of deleted RC AG</i>
	Entry Price	
<i>B9</i>	B12-B22. <u>As an asset's</u> The current operational value <u>of an asset</u> represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.	<i>Based on D27 of deleted RC AG</i>

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Entity-Specific Value	
B8	<p>B13.<u>B23.</u> <u>Current operational value estimates the amount the entity would pay to replace an asset in its existing use.</u> An entity shall measure the current operational value of an asset using the assumptions from the entity's perspective, assuming that entity acts in accordance with its policy objectives<u>based on the way the existing asset is used to achieve the entity's service delivery objectives.</u> For example, where an entity is using an immovable asset for a particular purpose, the entity will consider the amount it would pay for that type of asset based on its existing use and not consider the value for alternative uses for that asset.</p>	Based on FV AG for consistency
<u>New</u>	<p><u>B24. In many cases, measuring the value of an asset in its current use requires an entity to make assumptions that are unique to the entity. This results in an entity-specific measurement. However, while current operational value measures the value of the asset to the entity, it maximizes the use of market inputs.</u></p>	
<u>New</u>	<p><u>B25. In practice, where the entity is considering the current operational value of asset it uses in a similar way to private sector entities (for example, office blocks in a business district) or the current operational value of moveable asset (for example, furniture), there may be little difference between the assumptions that market participants would use and those that an entity itself uses.</u></p>	<u>IASB CF 6.19</u>
	<u>Market Inputs</u>	
	<p><u>B26. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a current operational value in both cases is the same—to estimate the amount the entity would pay for the asset to replace its remaining service potential at the measurement date under current market conditions (i.e., an entry price at the measurement date from the perspective of the entity that holds the asset).</u></p>	<u>IFRS 13.2</u>
	<p><u>B27. When a price for an identical asset is not observable, an entity measures current operational value using another valuation technique that maximizes the use of relevant</u></p>	<u>IFRS 13.3</u>

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p><u>market inputs and minimizes the use of unobservable inputs. Because current operational value is an entity-specific measurement, it is measured using the assumptions from the entity's perspective. As a result, an entity's intention in holding the asset is relevant when measuring current operational value.</u></p>	
	<p>Surplus Capacity</p>	<p>GUIDANCE ON SURPLUS CAPACITY IS DELETED (Staff's view is this concept should be addressed in IGs [not included])</p>
B10	<p>B14. Surplus capacity exists when an asset is not used to its maximum capacity. For example, an entity owns a building, but only utilizes 80% of the space available. The remaining 20% is left vacant.</p>	-
B11	<p>B15. Since current operational value reflects the value of the asset consumed in providing the service at the prevailing prices, current operational value assumes the asset is used to its full capacity, subject to any tests for impairment in accordance with IPSAS 21 or IPSAS 26.</p>	-
B12	<p>B16. For example, the current operational value of land shall reflect the value of the land actually held, in terms both of size and location. For example, if the services could be provided from a site measuring three hectares, but the actual site measures five hectares, the land is measured based on its actual size.</p>	-
	<p>Restrictions</p>	<p>GUIDANCE ON RESTRICTIONS IS DELETED (Staff's view is this is addressed in 'existing use' concept)</p>
B13	<p>B17. Many assets are subject to restrictions on their use or sale and/or the price an entity can charge users of the services provided by the asset, where the restriction is legally enforceable and cannot be revoked unilaterally by the entity holding the asset. Such legally enforceable restrictions may arise from legislation, planning authorities, ministerial decisions or instructions from governments or other authorities.</p>	-
B14	<p>B18. The current operational value of restricted assets shall be measured as follows:</p>	-

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>(a) If an equivalent restricted asset is obtainable in the orderly market at the measurement date for a price supported by observable market evidence, the asset is measured based on the available market evidence for the equivalent restricted asset, without any further reduction for the restrictions; or</p> <p>(b) If an equivalent restricted asset is not obtainable in an orderly market at the measurement date for a price supported by observable market evidence, the asset is measured at the price of an equivalent unrestricted asset, without a reduction for the restrictions.</p>	
B15	<p>B19. An equivalent asset — whether restricted or unrestricted — should be an asset that reflects the same characteristics as the asset being measured. For example, if the asset being measured is contaminated, an equivalent asset should be a contaminated asset. If the equivalent asset has a different service capacity from the asset being measured (although necessarily the same nature), market comparison techniques are used to adjust for the difference between the capacity of the entity's asset being measured and the capacity of the equivalent reference asset. For example, a public sector entity could measure a school asset using the price of a recently constructed school in a neighboring district that has double the student capacity, with adjustments for the difference in capacity and any other difference in value if the reference asset provides different amenity. Despite differing capacities or amenity, the nearby school is an equivalent asset because it provides services of the same nature as the school being measured.</p>	-
B16	<p>B20. For the purposes of paragraph B17:</p> <p>(a) An equivalent restricted asset is an asset that provides services of the same nature as those the entity's asset provides in its current use and that is subject to the same restriction(s) on use, sale and/or pricing as the entity's asset; and</p> <p>(b) An equivalent unrestricted asset is an asset that provides services of the same nature as those the entity's asset provides in its current use but is not subject to all the restrictions imposed on the entity's asset. When an equivalent restricted asset is not obtainable in an orderly market, but one or more</p>	-

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>equivalent assets subject to some of the restrictions applying to the entity's asset are obtainable in an orderly market, the equivalent "unrestricted" asset used as a reference asset for measuring the entity's restricted asset is that which most closely shares the restrictions to which the entity's asset is subject.</p>	
B17	<p>B21. The current operational value of a restricted asset measured under paragraph B17 by reference to observable market evidence for an equivalent asset is not reduced to reflect the restrictions. In respect of assets measured under paragraph B17(a), the market entry price of an equivalent restricted asset would already reflect any effects that the restrictions have on the current entry price of the service potential embodied in the asset. In respect of assets measured under paragraph B17 (b), the restrictions would not reduce the current entry price of the service potential embodied in the asset (the cost that the entity currently would need to incur) if the entity needs to purchase an unrestricted replacement asset to continue delivering services of the same nature and volume.</p>	-
	Initial Recognition	
B21	<p>B22-B28. If another IPSAS requires or permits an entity to measure an asset initially at current operational value and the transaction price differs from current operational value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.</p>	Based on IFRS 13.60
	Measurement Techniques	
B22	<p>B23-B29. In some cases, current operational value 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 operational value 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.</p>	Based on IASB Conceptual Framework 6.22
B23	<p>B24-B30. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</p>	<p>Based on FV AG for consistency</p> <p>Based on D28 of deleted RC AG</p>

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
B24	<p><u>B25-B31.</u> The objective of using a measurement technique is to estimate the value of the <u>the amount an entity would pay for the</u> asset <u>based on its existing use</u> used to achieve the entity's present service delivery objectives at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, and <u>and</u> the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs B26B33-B4B1. An entity shall use measurement techniques consistent with one or more other of those approaches to measure current operational value.</p>	Based on FV AG for consistency
B25	<p><u>B26-B32.</u> If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current operational value measurement is the point within that range that is the most representative value of the asset in its current <u>existing</u> use in the circumstances.</p>	Based on FV AG for consistency
	<i>Market Approach</i>	
B26	<p><u>B27-B33.</u> Applying the market approach to measure the current operational value of an asset requires the existence of market transactions involving identical or comparable assets.</p>	Based on FV AG for consistency
B27	<p><u>B28-B34.</u> In many cases, the current operational value 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. For example, the current operational value of a property an office building, or motor vehicles, may be established by reference to the indexed price for the same or a similar asset based on a price for a previous period.</p>	Based on D29 of deleted RC AG
B28	<p><u>B29-B35.</u> Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach an asset with an identical or similar remaining useful life, service potential, etc. must be identified. A similar asset may exist when an asset, comparable to that being valued, was recently acquired, constructed or developed.</p>	-

ED Para	DRAFT IPSAS XX, Measurement	Original Source
	<i>Cost Approach</i>	
B29	B30-B36. Applying the cost approach to measure the current operational value of an asset involves considering the current replacement cost of the asset.	-
B30	B34-B37. There are various examples in the public sector of assets whose specifications are such that there are few (if any) similar assets and a market approach to assessing a current operational value is unlikely to be appropriate.	Based on D15 of deleted RC AG
B31	B32-B38. The current operational value of an asset will likely be established by reference to the amount required to replace the asset using the cost approach when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will be applied. For example, the current operational value of a school may be established by reference to the market buying price of components used required to produce replace the school in its existing location based on its current age and condition.	Based on D29 of deleted RC AG
	<i>Modern Equivalent Asset</i>	
<i>New</i>	B39. <u>There are many reasons why existing assets would not be replaced with identical assets. Reasons include, but are not limited to, changes in design, changes in technology, changes in operational practice. It may be necessary, therefore, to estimate the current operational value of an asset by adjusting the current price of a new modern equivalent asset that provides an equivalent service as the existing asset in its existing use, to reflect the current age, condition and functionality of the asset held by the entity (see paragraph B45).</u>	
B32	B33-B40. <u>In general, the current operational value is estimated by calculating the cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset in its current use while using the latest technology available⁴—and then making deductions for obsolescence and optimization.</u>	Based on D30 of deleted RC AG CONCEPT INCORPORATED INTO PARAGRAPH ABOVE

⁴ ~~The latest technology available is evaluated in the context of the current existing use of the asset and its replacement in the least costly manner (see paragraph B26B22). A modern equivalent asset need not use the most advanced technology available, but it must be based on the technological standard at the measurement date.~~

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
B15	<p><u>B41.</u> An <u>modern</u> equivalent asset—whether restricted or unrestricted— should be an asset that reflects the same characteristics as the asset being measured. For example, if the asset being measured is contaminated, an equivalent asset should be a contaminated asset. If the equivalent asset has a different service capacity-potential from the asset being measured (although necessarily the same nature), market comparison techniques are used to adjust for the difference between the <u>service capacity potential</u> of the entity's asset being measured and the <u>service capacity-potential</u> of the equivalent reference asset. For example, a public sector entity could measure a school asset using the <u>component prices</u> of a recently constructed school in a neighboring district that has double the student capacity, with adjustments for the difference in capacity and any other difference in value if the reference asset provides different amenity. Despite differing capacities or amenity, the <u>component prices of the</u> nearby school is an equivalent asset because it provides services of the same nature as the school being measured.</p>	
B33	<p><u>B34-B42.</u> <u>In some circumstances a modern equivalent asset may not be reflective of the asset being measured.</u> <u>For example,</u> it may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as an historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent does not represent the heritage value of the asset.</p>	-
B34	<p><u>B35-B43.</u> <u>An</u> entity should consider very carefully whether to use a reproduction cost (or restoration cost) to determine current operational value. 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.</p>	-
B35	<p><u>B36-B44.</u> <u>The</u> cost of a modern equivalent asset will reflect the amount that would be incurred-paid if the works were commissioned on the measurement date. However,</p>	Based on D36-D42 of deleted RC AG

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>there are factors that may result in the cost of a notional replacement <u>asset</u> being different from that of creating the actual asset:</p> <p><u>a. Phasing of work</u> – A large site<u>An asset</u> 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. A single-phase development may still occur over an extended period of time.</p> <p><u>a-b. Borrowing costs</u> – If the entity does not capitalize borrowing costs in accordance with IPSAS 5, <i>Borrowing Costs</i>, the entity should disregard any financing costs in measuring the modern equivalent asset.</p> <p><u>b-c. Additional costs arising from extending an existing property asset</u> – These costs should <u>not</u> be ignored, since the norm is that<u>considered as</u> the valuation will be of a modern equivalent asset.</p> <p><u>c-d. Contract variations</u> – Additional construction costs because of design or specification changes<u>contract variations</u> should <u>not</u> be ignored<u>considered</u>. The modern equivalent asset being valued will have the same service capacity as the existing asset in its current-existing use.</p> <p><u>d-e. Planning changes</u> – Entities should consider whether planning consent would need to be obtained were to construct the modern equivalent asset to be constructed on the actual site and take this into account.</p>	
B36	<p><u>B37-B45.</u> Deductions are made for the following forms of obsolescence:</p> <p>(a) 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 lives and their rate of deterioration.</p> <p>(b) Functional Obsolescence. Functional obsolescence relates to any loss of service capacity resulting from</p>	Based on D31-D33 of deleted RC AG

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>inefficiencies in the asset that is being valued compared with 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 educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.</p> <p>(c) Economic (or External) Obsolescence. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.</p>	
B37	<p>B38-B46. It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.</p>	Based on PBE IPSAS 17 AG5.
	<i>Income Approach</i>	
B38	<p>B39. The income approach converts future amounts (e.g., cash flows or revenues and expenses) to a single current amount. This approach may be applicable to estimate the current operational value when:</p> <p>a. The use of multiple measurement techniques is appropriate (e.g., the use of a market approach and a present value technique). 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. When the timing of an outflow differs from the measurement date that amount should be discounted to its value at the measurement date when estimating current operational value. For example, when establishing the current operational value of a school by reference to the construction of a substitute asset, i.e., the cost approach, costs incurred over the construction period should be discounted to the measurement date using the present value techniques outlined in the income</p>	-

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>approach. (see paragraphs B40–B41 which describe the use of present value techniques).</p> <p>b. Information is unavailable to support the application of the market or cost approach. Discounting the future cash inflows generated by an asset will generally not reflect the amount an entity would currently incur to acquire its assets to be able to continue to achieve its present service delivery objectives. However, in some cases the income approach may be the best approximation of current operational value when cost or market information is unavailable. For example, heritage items that are naturally occurring, such as cave paintings, or natural resources are unlikely to have cost or market information related to the specific asset. However, the asset may generate cash inflows through tourism, a royalty stream, etc. that may be relevant in determining the current operational value.</p>	
B39	<p>B40. Applying the income approach shall take into account the attributes of the asset. 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). The price for bearing that uncertainty depends on the extent of that uncertainty; and (e) Other factors. 	Based on the IASB Conceptual Framework
B40	<p>B41. Paragraphs Error! Reference source not found. Error! Reference source not found. describe the use of present value techniques. 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 operational value to the techniques discussed. The present value technique used to measure current operational value will depend on facts and circumstances specific to the asset being measured</p>	Based on Error! Reference source not found. of FV AG for consistency

<i>ED Para</i>	DRAFT IPSAS XX, Measurement	<i>Original Source</i>
	(e.g., whether prices for comparable assets can be observed in the market) and the availability of sufficient data.	
<i>B44</i>	B42. When applying paragraphs Error! Reference source not found. in the context of measuring current operational value, an entity should perform the measurement from the perspective of the entity holding the asset rather from the perspective of the market participant as noted in paragraphs Error! Reference source not found. , Error! Reference source not found. , Error! Reference source not found. , Error! Reference source not found. , and Error! Reference source not found. .	-

COV Definition

Question

1. Does the IPSASB agree the definition in [draft] IPSAS [X], *Measurement*, clearly reflects the principles agreed by the IPSASB?

Recommendation

2. Staff and the Drafting Group recommend COV is the amount the entity would pay for an asset to replace its remaining service potential at the measurement date.

Background

3. At its September meeting the IPSASB instructed staff to update the COV definition to reflect the principles agreed by the IPSASB at its June and September 2022 meetings.

Analysis

4. Using the updated COV guidance in [draft] IPSAS [X], *Measurement*, (see [Agenda Item 2.2.2](#)), staff developed a definition that reflects the changes proposed.

COV is the amount the entity would pay for an asset to replace its remaining service potential at the measurement date.

5. In developing the definition, staff was guided by two objectives:
 - (a) **Understandability.** The definition should clearly communicate the objective of the measurement basis without needing additional reading. CAG members noted applying fair value in practice required reviewing the guidance in its entirety. However, the definition clearly lays out what is expected when applying the measurement basis (i.e., the price received to sell an asset or transfer a liability).
 - (b) **Inclusion of all principles.** The definition should incorporate the public sector measurement principles agreed by the IPSASB.

These objectives can be contradictory. The more principles included in the definition, the less understandable it is. To balance these objectives, the definition and accompanying text is drafted so that each principle is attributable to a component of the definition.

6. For the purposes of illustrating to the IPSASB how the definition relates to the accompanying guidance, staff constructed the definition and principles as follows:

*COV is the **amount the entity would pay** for an **asset** to replace its remaining service potential at the measurement date.*

Amount the entity would pay

Entry price

Least costly manner

Current market conditions

Market inputs

Entity specific perspective

Asset

Existing location

Existing asset

Existing use

Decision Required

7. Does the IPSASB agree with the Staff [recommendation](#)?

Appendix A – Definition (Tracked Changes)

This appendix includes a tracked changes version of the COV definition and COV core text. Changes are tracked from [ED 77, Measurement](#), proposals.

ED Para	DRAFT IPSAS XX, Measurement	Original Source
	<i>Definitions</i>	
6	6. Current operational value is the <u>amount the entity would pay for an asset to replace its remaining service potential value of an asset used to achieve the entity's service delivery objectives at the measurement date.</u>	
	<i>Current Operational Value</i>	
23	23. Current operational value is also an entry, entity-specific value <u>entry price</u> . It provides monetary information about assets, and related- amortization, depreciation, etc., using current information about the amount an entity would pay for an asset in existing use, updated to reflect conditions at the measurement date revenues and expenses, using information updated to reflect conditions at the measurement date . Current operational value therefore reflects changes in the values of assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.	<i>Based on FV para for consistency (CC is entity specific / FV is from market participants perspective)</i>
24	24. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the entity's asset in its current-existing <u>use and condition</u> .	<i>Based on FV para for consistency (CC is entity specific / FV is from market participants perspective)</i>
25	25. Current operational value differs from fair value because it: <ul style="list-style-type: none"> a. Is explicitly an entry value-price and includes all the costs that would necessarily be incurred when obtaining the paid for the <u>asset to replace its remaining service potential</u>; b. Reflects the value of an asset in its current-existing <u>use</u>, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and c. Is entity-specific and therefore reflects the economic position of the entity, rather than the position prevailing 	<i>IPSASB CF 7.28 (IED.22)</i>

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	in a hypothetical market (for example, the current operational value 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).	

Supporting Documents 1 – COV Guidance (Clean)

This supporting document includes a clean version of the COV definition, COV Guidance and COV core text.

The guidance provided in this appendix is consistent with [Appendix A of Agenda Item 2.2.2](#) and [Appendix A of Agenda Item 2.2.3](#). This guidance is provided for informational purposes.

ED Para	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	Appendix B: Current Operational Value <i>This Appendix is an integral part of [draft] IPSAS [X] (ED 77).</i>	
	Measurement	
B1	<p>B1. The objective of a current operational value measurement is to estimate the amount an entity would pay for a non-financial asset based on its existing use, to achieve the entity's service delivery objectives at the measurement date. A current operational value measurement requires an entity to determine all of the following:</p> <ul style="list-style-type: none"> (a) The asset that is the subject of the measurement (consistent with its unit of account). (b) The existing use of the asset by the entity. (c) The measurement technique(s) appropriate for estimating the amount an entity would pay for the asset based on its existing use, considering the availability of data with which to develop inputs that represent the assumptions that are specific to the entity. 	<p><i>Based on FV AG for consistency (COV is entity specific / FV is from market participants perspective)</i></p> <p><i>Includes aspects of D1 of deleted RC AG.</i></p>
B2	<p>B2. Current operational value presents an entity specific measurement of an asset held for its operational capacity in its existing use.</p> <ul style="list-style-type: none"> (a) In the statement of financial position, current operational value reflects the amount an entity would pay at the measurement date for its existing assets to be able to achieve its service delivery objectives. (b) In the statement of financial performance, current operational value reflects the assets consumed in providing the service based on current market conditions. This differs from historical cost which reflects consumption of the asset based on the prices when the asset was acquired and initially recognized. 	-
	<i>The Asset</i>	-
B5	<p>B3. Current operational value measures an asset, or group of assets, used in supporting the achievement of an entity's service delivery objectives. The following key aspects affect the measurement of an asset's current operational value:</p>	-

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	<p>(a) The existing asset;</p> <p>(b) The existing use of the asset;</p> <p>(c) The existing location of the asset; and</p> <p>(d) The remaining service potential of the asset.</p>	
	Existing Asset	-
<i>New</i>	B4. Current operational value assumes the entity will continue to meet its service delivery objectives by using the same, or a similar, asset based on its existing use.	-
<i>New</i>	B5. Current operational value estimates the amount required to replace the asset to provide the entity's service delivery objectives	-
	Existing Use of the Asset	-
<i>B3</i>	B6. An asset supports an entity in achieving its service delivery objectives in its existing use. 'Existing use' is the way an asset or group of assets is used and generally reflects the service delivery objectives of the entity operating the asset. For example, a Ministry of Health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to achieve the entity's service delivery objective rather than for commercial purposes.	<p><i>Based on IVS 150.1</i></p> <p><i>Based on D14 of deleted RC AG</i></p>
<i>B4</i>	B7. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, the existing use of a building operated as a school, is for the delivery of educational services. Alternative uses, such as the operation of the building as an office block held for rental at market rates are not considered. The existing use may be, but is not necessarily, the highest and best use.	<i>Based on IVS 150.1</i>
<i>B13</i>	B8. Many assets are subject to restrictions on their use or sale and/or the price an entity can charge users of the services provided by the asset. Such restrictions are unlikely to impact the current operational value of an asset because the restriction(s) is already taken into account in how the asset is currently used, or has no impact on the asset's current use.	

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
<i>New</i>	B9. Any portion of the asset that is surplus to the existing use of the asset is evaluated to determine whether the surplus portion is held for a specific purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, and/or functional limitations. Portions of the asset that are surplus to its existing use, but would be replaced, are included in current operational value. For example, a building operated as a school may have additional capacity than what is required for the ongoing delivery of educational services. Where this additional capacity would be replaced because it serves the community as an evacuation center in case of emergencies, the capacity would be included when measuring the asset's current operational value.	
	Existing Location of the Asset	-
<i>B6</i>	B10. The asset's current operational value assumes that the entity will continue to meet its service delivery objectives from the same location in which the asset is currently situated or used.	- -
<i>B7</i>	B11. The current operational value of an asset that cannot be moved reflects the value of the immovable asset in its existing location. For example, a hospital operating in a city center that could now be situated in the suburbs, because of the migration of the population, is measured based on the amount an entity would pay for the hospital in its existing location (e.g., the amount required to replace a building includes construction costs, permits, regulations, etc. based on costs that would be paid at the existing location).	- -
<i>New</i>	B12. The current operational value of a movable asset reflects the location from which the entity uses the asset. For example, the furniture and equipment in a hospital operating in a city center is measured based on the amount an entity would pay for furniture and equipment for that hospital.	-
	Service Potential	-
<i>New</i>	B13. Current operational value presents the value of the remaining service potential of the asset. The remaining service potential of the asset reflects the current age and condition of the asset held by the entity.	-

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
<i>New</i>	B14. The value of an asset is impacted by its remaining service potential through factors including physical, functional, economic obsolescence.	-
	<i>The Amount</i>	
<i>New</i>	B15. Current operational value is the amount that an entity would pay to replace an asset in the least costly manner, in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an entry price) regardless of whether that price is directly observable or estimated using a measurement technique.	<i>Based on IFRS 13.24</i>
	<i>Current Market Conditions</i>	
<i>New</i>	B16. Current operational value provides monetary information about assets and related amortization, depreciation, etc., using current information about the amount an entity would pay for an asset in existing use, updated to reflect conditions at the measurement date.	
<i>New</i>	B17. An orderly transaction allows for activities that are usual and customary for transactions involving the assets being measured. Orderly transactions are not forced and do not occur under duress.	<i>Based on Appendix A of IFRS 13.</i>
<i>New</i>	B18. The principal market is the market with the greatest volume and level of activity for the asset being measured at the measurement date.	<i>Based on Appendix A of IFRS 13.</i>
	<i>The Least Costly Manner</i>	
<i>B18</i>	B19. A current operational value measure assumes the amount an entity would pay for the asset at the measurement date to be able to continue to achieve its service delivery objectives is the least costly amount to replace the asset's remaining service potential.	<i>Based on D23 of deleted RC AG</i>
<i>B19</i>	B20. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.	<i>Based on D26 of deleted RC AG</i>
<i>B20</i>	B21. Current operational value reflects the amount an entity would pay for the existing asset to be able to continue to achieve its service delivery objectives, and not the costs	<i>Based on D26 of deleted RC AG</i>

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	that might be incurred if an urgent necessity to replace the asset arose as a result of some unforeseeable event.	
	Entry Price	
<i>B9</i>	B22. The current operational value of an asset represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.	<i>Based on D27 of deleted RC AG</i>
	Entity-Specific Value	
<i>B8</i>	B23. Current operational value estimates the amount the entity would pay to replace an asset in its existing use. An entity shall measure the current operational value of an asset using assumptions from the entity's perspective, based on the way the existing asset is used to achieve the entity's service delivery objectives. For example, where an entity is using an immovable asset for a particular purpose, the entity will consider the amount it would pay for that type of asset based on its existing use and not consider the value for alternative uses for that asset.	<i>Based on FV AG for consistency</i>
<i>New</i>	B24. In many cases, measuring the value of an asset in its current use requires an entity to make assumptions that are unique to the entity. This results in an entity-specific measurement. However, while current operational value measures the value of the asset to the entity, it maximizes the use of market inputs.	
<i>New</i>	B25. In practice, where the entity is considering the current operational value of asset it uses in a similar way to private sector entities (for example, office blocks in a business district) or the current operational value of moveable asset (for example, furniture), there may be little difference between the assumptions that market participants would use and those that an entity itself uses.	<i>IASB CF 6.19</i>
	Market Inputs	
	B26. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a current operational value in both cases is the same—to estimate the amount the entity would pay for the asset to replace its remaining service potential at the measurement date	<i>IFRS 13.2</i>

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	under current market conditions (i.e., an <i>entry price</i> at the measurement date from the perspective of the entity that holds the asset).	
	B27. When a price for an identical asset is not observable, an entity measures current operational value using another valuation technique that maximizes the use of relevant market inputs and minimizes the use of unobservable inputs. Because current operational value is an entity-specific measurement, it is measured using the assumptions from the entity's perspective. As a result, an entity's intention in holding the asset is relevant when measuring current operational value.	<i>IFRS 13.3</i>
	Initial Recognition	
<i>B21</i>	B28. If another IPSAS requires or permits an entity to measure an asset initially at current operational value and the transaction price differs from current operational value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.	<i>Based on IFRS 13.60</i>
	Measurement Techniques	
<i>B22</i>	B29. In some cases, current operational value 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 operational value 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.	<i>Based on IASB Conceptual Framework 6.22</i>
<i>B23</i>	B30. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.	<i>Based on FV AG for consistency</i> <i>Based on D28 of deleted RC AG</i>
<i>B24</i>	B31. The objective of using a measurement technique is to estimate the amount an entity would pay for the asset based on its existing use to achieve the entity's service delivery objectives at the measurement date under current market conditions. The widely used measurement techniques are the market approach and the cost approach. The main aspects of those approaches are summarized in paragraphs B33–0. An entity shall use	<i>Based on FV AG for consistency</i>

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	measurement techniques consistent with one or other of those approaches to measure current operational value.	
<i>B25</i>	B32. If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current operational value measurement is the point within that range that is the most representative value of the asset in its existing use in the circumstances.	<i>Based on FV AG for consistency</i>
	<i>Market Approach</i>	
<i>B26</i>	B33. Applying the market approach to measure the current operational value of an asset requires the existence of market transactions involving identical or comparable assets.	<i>Based on FV AG for consistency</i>
<i>B27</i>	B34. In many cases, the current operational value 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. For example, the current operational value of an office building, or motor vehicles, may be established by reference to the indexed price for the same or a similar asset based on a price for a previous period.	<i>Based on D29 of deleted RC AG</i>
<i>B28</i>	B35. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach an asset with an identical or similar remaining useful life, service potential, etc. must be identified. A similar asset may exist when an asset, comparable to that being valued, was recently acquired, constructed or developed.	-
	<i>Cost Approach</i>	
<i>B29</i>	B36. Applying the cost approach to measure the current operational value of an asset involves considering the current replacement cost of the asset.	-
<i>B30</i>	B37. There are various examples in the public sector of assets whose specifications are such that there are few (if any) similar assets and a market approach to assessing a current operational value is unlikely to be appropriate.	<i>Based on D15 of deleted RC AG</i>

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
<i>B31</i>	B38. The current operational value of an asset will be established using the cost approach when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will be applied. For example, the current operational value of a school may be established by reference to the market price of components required to replace the school in its existing location based on its current age and condition.	<i>Based on D29 of deleted RC AG</i>
	Modern Equivalent Asset	
<i>New</i>	B39. There are many reasons why existing assets would not be replaced with identical assets. Reasons include, but are not limited to, changes in design, changes in technology, changes in operational practice. It may be necessary, therefore, to estimate the current operational value of an asset by adjusting the current price of a new modern equivalent asset that provides an equivalent service as the existing asset in its existing use, to reflect the current age, condition and functionality of the asset held by the entity (see paragraph B45).	
<i>B32</i>	B40.	<i>Based on D30 of deleted RC AG</i> <i>CONCEPT INCORPORATED INTO PARAGRAPH ABOVE</i>
<i>B15</i>	B41. A modern equivalent should be an asset that reflects the same characteristics as the asset being measured. For example, if the asset being measured is contaminated, an equivalent asset should be a contaminated asset. If the equivalent asset has a different service potential from the asset being measured (although necessarily the same nature), market comparison techniques are used to adjust for the difference between the service potential of the entity's asset being measured and the service potential of the equivalent reference asset. For example, a public sector entity could measure a school using the component prices of a recently constructed school in a neighboring district that has double the student capacity, with adjustments for the difference in capacity and any other difference in value if the reference asset provides different amenity. Despite differing capacities or amenity, the component prices of the nearby school is an equivalent	

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	asset because it provides services of the same nature as the school being measured.	
B33	B42. In some circumstances a modern equivalent asset may not be reflective of the asset being measured. For example, it may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as an historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent does not represent the heritage value of the asset.	-
B34	B43. An entity should consider very carefully whether to use a reproduction cost (or restoration cost) to determine current operational value. 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.	-
B35	B44. The cost of a modern equivalent asset will reflect the amount that would be paid if the works were commissioned on the measurement date. However, there are factors that may result in the cost of a replacement asset being different from that of creating the actual asset: <ul style="list-style-type: none"> a. <i>Phasing of work</i> – An asset 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. A single-phase development may still occur over an extended period of time. b. <i>Borrowing costs</i> – If the entity does not capitalize borrowing costs in accordance with IPSAS 5, <i>Borrowing Costs</i>, the entity should disregard any financing costs in measuring the modern equivalent asset. c. <i>Additional costs arising from extending an existing asset</i> – These costs should not be considered as the valuation will be of a modern equivalent asset. d. <i>Contract variations</i> – Additional construction costs because of contract variations should not be 	Based on D36-D42 of deleted RC AG

<i>ED Para</i>	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	<p>considered. The modern equivalent asset being valued will have the same service capacity as the existing asset in its existing use.</p> <p>e. <i>Planning changes</i> – Entities should consider whether planning consent would need to be obtained to construct the modern equivalent asset and take this into account.</p>	
B36	<p>B45. Deductions are made for the following forms of obsolescence:</p> <p>(a) 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 lives and their rate of deterioration.</p> <p>(b) Functional Obsolescence. Functional obsolescence relates to any loss of service capacity resulting from inefficiencies in the asset that is being valued compared with 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 educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.</p> <p>(c) Economic (or External) Obsolescence. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.</p>	Based on D31-D33 of deleted RC AG
B37	<p>B46. It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.</p>	Based on PBE IPSAS 17 AG5.

<i>ED Para</i>	DRAFT IPSAS XX, Measurement	<i>Original Source</i>
	<i>Definitions</i>	
6	6. <u>Current operational value is the amount the entity would pay for an asset to replace its remaining service potential at the measurement date.</u>	
	<i>Current Operational Value</i>	
23	23. Current operational value is an entity-specific entry price. It provides monetary information about assets, and related amortization, depreciation, etc., using current information about the amount an entity would pay for an asset in existing use, updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.	<i>Based on FV para for consistency (CC is entity specific / FV is from market participants perspective)</i>
24	24. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the entity's asset in its existing use and condition.	<i>Based on FV para for consistency (CC is entity specific / FV is from market participants perspective)</i>
25	25. Current operational value differs from fair value because it: <ul style="list-style-type: none"> a. Is explicitly an entry price and includes all the costs that would necessarily be paid for the asset to replace its remaining service potential; b. Reflects the value of an asset in its existing use, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and c. Is entity-specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market. 	<i>IPSASB CF 7.28 (IED.22)</i>