

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

**Meeting Location:** Zurich, Switzerland

**Meeting Date:** September 12–15, 2023

## Agenda Item 8

For:
















- ☐ Approval  
☒ Discussion  
☐ Information

### MEASUREMENT APPLICATION PHASE

<b>Project summary</b>	The project objective is to evaluate the applicability of current operational value in IPSAS not explicitly considered in phase one of the Measurement project.	
<b>Project staff leads</b>	<ul style="list-style-type: none"> <li>Agustina Llambi, Senior Manager</li> <li>John Stanford, Senior Advisor</li> </ul>	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>David Watkins, IPSASB Technical Advisor (Task Force Chair)</li> <li>Todd Beardsworth, IPSASB Member</li> <li>Liang Caroline Yang, IPSASB Member</li> <li>Takeo Fukiya, IPSASB Technical Advisor</li> <li>Rasmimi Ramli, IPSASB Technical Advisor</li> <li>Mark Wermuth, IPSASB Technical Advisor</li> <li>Shahad A. Alshehri, Ministry of Finance, Kingdom of Saudi Arabia</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Project Dashboard</a>	<a href="#">8.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">8.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">8.1.3</a>
	<a href="#">Project Roadmap</a>	<a href="#">8.1.4</a>
<b>Decisions required at this meeting</b>	<a href="#">Project Overview</a> (for discussion purposes only)	<a href="#">8.2.1</a>
	<a href="#">Analysis of COV Applicability to IPSAS 12, <i>Inventories</i></a>	<a href="#">8.2.2</a>
	<a href="#">Impairment: Revised Definition of Fair Value and Recoverable Service Amount</a>	<a href="#">8.2.3</a>
	<a href="#">Impairment: Retention or Replacement of Value in Use of a Non-Cash-Generating Asset in Recoverable Service Amount</a>	<a href="#">8.2.4</a>
	<a href="#">Analysis of COV Applicability to IPSAS 40, <i>Public Sector Combinations</i></a>	<a href="#">8.2.5</a>

	<a href="#"><u>Analysis of COV Applicability to IPSAS 32, <i>Service Concession Arrangements: Grantor</i></u></a>	<a href="#"><u>8.2.6</u></a>
	<a href="#"><u>Analysis of COV Applicability to IPSAS 43, <i>Leases</i></u></a>	<a href="#"><u>8.2.7</u></a>
	<a href="#"><u>Definition of Accounting Estimates and Consistent Application of the Term 'Measurement Technique'</u></a>	<a href="#"><u>8.2.8</u></a>

**PHASE TWO OF MEASUREMENT:  
PROJECT DASHBOARD**

Project Topic	Past Meetings	June 2023	Sept 2023	Dec 2023
Project Management	✓			
Review and Approval of Measurement Application Phase				
Measurement – Applicability of current operational value				
• IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>				
• IPSAS 12, <i>Inventories</i>				
• IPSAS 16, <i>Investment Property</i>		✓		
• IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i>		✓		
• IPSAS 26, <i>Impairment of Cash-Generating Assets</i>		✓		
• IPSAS 27, <i>Agriculture</i>		✓		
• IPSAS 31, <i>Intangible Assets</i>				
• IPSAS 32, <i>Service Concession Arrangements: Grantor</i>				
• IPSAS 36, <i>Investments in Associates and Joint Ventures</i>		✓		
• IPSAS 37, <i>Joint Arrangements</i>		✓		
• IPSAS 40, <i>Public Sector Combinations</i>				
• IPSAS 41, <i>Financial Instruments</i>		✓		
• IPSAS 43, <i>Leases</i>				
<b>Legend</b>				
✓	Task Completed			
	Planned IPSASB Discussion			
	Page-by-page Review			

**INSTRUCTIONS UP TO PREVIOUS MEETING**

Meeting	Instruction	Actioned
June 2023	1. Include in the Basis for Conclusions the fact that biological assets in the scope of IPSAS 27 are held to generate economic benefits and therefore current operational value is not an applicable measurement basis;	1. BC to be drafted
	2. Consider the IPSAS 46, <i>Measurement</i> definition of 'fair value' in the analysis of 'recoverable service amount'; and	2. See <a href="#">Agenda Item 8.2.3</a>
	3. Analyze whether current operational value is a surrogate for 'value in use of a non-cash-generating asset' or a component of 'recoverable service amount'.	3. See <a href="#">Agenda Item 8.2.4</a>

**DECISIONS UP TO PREVIOUS MEETING**

Meeting	Decision	BC Reference
June 2023	1. The IPSASB decided that current operational value (COV) is not an applicable measurement basis for IPSAS 16, <i>Investment Property</i> .	1. BC to be drafted.
	2. The IPSASB decided that COV is not an applicable measurement basis for IPSAS 26, <i>Impairment of Cash-Generating Assets</i> .	2. BC to be drafted.
	3. The IPSASB decided that COV is not an applicable measurement basis for IPSAS 27, <i>Agriculture</i> .	3. BC to be drafted.
	4. The IPSASB decided that COV is not an applicable measurement basis for IPSAS 36, <i>Investments in Associates and Joint Ventures</i> .	4. BC to be drafted.
	5. The IPSASB decided that COV is not an applicable measurement basis for IPSAS 37, <i>Joint Arrangements</i> .	5. BC to be drafted.
	6. The IPSASB decided that COV is not an applicable measurement basis for IPSAS 41, <i>Financial Instruments</i> .	6. BC to be drafted.
	7. The IPSASB decided that the scope of the review of IPSAS 21 should be limited to the definition of 'recoverable service amount' and the components of 'recoverable service amount.'	7. BC to be drafted.
March 2023	1. The IPSASB decided the specific IPSAS in the scope of the Measurement Application Phase.	1. BC to be drafted.
December 2022	2. The potential application of COV across the existing suite of IPSAS should be added to the work program as a separate phase, with work to begin after the expected approval of IPSAS, <i>Measurement</i> , in March 2023.	2. Not applicable - Measurement: Application of COV has been added to the <a href="#">work program</a> .

**PROJECT ROADMAP**

<b>Meeting</b>	<b>Completed Actions or Discussions / Planned Actions or Discussions:</b>
December 2022	1. Application of COV - Phase 2 of the Measurement was added to the <a href="#">work program</a> .
March 2023	1. Discussion of Issues
June 2023	1. Discussion of Issues
September 2023	1. Discussion of Issues
December 2023	1. Discussion of Issues
March 2024	1. Review of Exposure Draft (page flip) 2. Approval of Exposure Draft
April 2024 – August 2024	1. Document Out for comment
December 2024	1. Review Responses to Exposure Draft 2. Discuss Issues
March 2025	1. Review of Pronouncement (page flip) 2. Approval of Amendments

## **Project Overview**

### **Purpose**

1. To provide a project overview and proposed project timeline for the Measurement Application phase.

### **Background**

2. In December 2022, the IPSASB decided to add a second phase to the measurement project to assess the applicability of current operational value ('COV') across IPSAS literature that had not been explicitly considered in the first phase of the Measurement project.
3. In June 2023, the IPSASB decided that COV is not an applicable measurement basis for:
  - (a) IPSAS 16, *Investment Property*;
  - (b) IPSAS 26, *Impairment of Cash-Generating Assets*;
  - (c) IPSAS 27, *Agriculture*;
  - (d) IPSAS 36, *Investments in Associates and Joint Ventures*;
  - (e) IPSAS 37, *Joint Arrangements*; and
  - (f) IPSAS 41, *Financial Instruments*.
4. Also in June 2023, the IPSASB decided the scope for IPSAS 21, *Impairment of Non-Cash-Generating Assets* should be limited to the definition of 'recoverable service amount' and the components of 'recoverable service amount'.

## **Project Overview**

### *Analysis performed in Q3 2023*

5. The following agenda items are included for the IPSASB's consideration in the June 2023 IPSASB meeting:
  - (a) Evaluation of the applicability of COV for:
    - (i) IPSAS 12, *Inventories*;
    - (ii) IPSAS 21, *Impairment of Non-Cash-Generating Assets*;
    - (iii) IPSAS 32, *Service Concession Arrangements: Grantor*;
    - (iv) IPSAS 40, *Public Sector Combinations*; and
    - (v) IPSAS 43, *Leases*.

### *Next Steps – Q4 2023 and Q1 2024*

6. At the December 2023 meeting, the IPSASB will be presented with the recommendation on the applicability of COV for:
  - (a) IPSAS 31, *Intangible Assets*;
  - (b) Analyze whether amendments to current value measurement disclosures added to specific IPSAS by IPSAS 46, *Measurement* are needed; and

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- (c) Amendments proposed to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* as a result of the introduction of a second current value measurement to IPSAS.

### Decision Required

7. No decision is required.



## **Analysis of COV Applicability to IPSAS 12, *Inventories***

### **Question**

1. Does the IPSASB agree with the recommendation?

### **Recommendation**

2. Task Force and staff recommend that current operational value ('COV') be added as a measurement basis for inventories held for:
  - (a) Distribution at no charge or for a nominal charge; or
  - (b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

### **Background**

3. In March 2023, the IPSASB decided the applicability of COV to inventories, i.e., IPSAS 12, should be analyzed as part of the Measurement Application Phase project.

### **Analysis**

#### *Relevant guidance in IPSAS 12*

4. IPSAS 12 defines inventories as:
  - (a) Materials or supplies to be consumed in the production process;
  - (b) Materials or supplies to be consumed or distributed in the rendering of services;
  - (c) Assets held for sale or distribution in the ordinary course of operations; or
  - (d) Assets in the process of production for sale or distribution.

Examples of inventories in the public sector include ammunition, consumable stores; maintenance materials; spare parts for plant and equipment, other than those dealt with in IPSAS 45, *Property, Plant and Equipment*; strategic stockpiles (for example, energy reserves); stocks of unissued currency; postal service supplies held for sale (for example, stamps); work-in-progress (for example, educational/training course materials); client services (for example, auditing services), where those services are sold at arm's length prices; and land/property held for sale.

5. Inventories are subsequently measured at:
  - (a) The lower of cost and net realizable<sup>1</sup> value, except where (b) applies.
  - (b) The lower of cost and current replacement cost<sup>2</sup> where inventories are held for:
    - (i) Distribution at no charge or for a nominal charge; or
    - (ii) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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<sup>1</sup> Net realizable value is 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.

<sup>2</sup> Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

*Applicability of COV*

**Lower of cost and net realizable value**

6. Guidance in IPSAS 12 requiring inventories be measured at the lower of cost and net realizable value is aligned with guidance in IAS 2, *Inventories*. In the private sector, entities hold inventory as part of their broader objective to generate profits. Inventories are therefore held for sale, or used as an input in a process to generate sales (i.e., to deliver a service, as an input to finished good, as a replacement part for property, plant and equipment, etc.).
7. When the cost of an item of inventory cannot be recovered, the most relevant information to private sector users is to present the amount that could be received to sell the inventory. When developing IPSAS 12, the IPSASB agreed this principle held for inventories to be distributed at 'market terms'.
8. For inventories that are held for the same purposes as those in the private sector, the development of COV in IPSAS 46 does not present a reason to depart from existing guidance. These inventories are held for their financial capacity. When their cost is not recoverable, the amount the inventory can be sold for, i.e., net realizable value, provides users with the most relevant information on the value of the item in the context of how the entity plans to use it.

**Lower of cost and current replacement cost**

9. In developing IPSAS 12, the IPSASB departed from the measurement requirements in IAS 2 because a public sector specific reason for departure was identified for certain types of inventories. In this case, the IPSASB determined inventory transactions in the public sector were sufficiently unique to warrant the development of a measurement alternative to the requirements in IAS 2.
10. The public sector specific measurement alternative requiring inventories be measured at the lower of cost and current replacement cost is not an accounting policy choice. IPSAS 12 articulates the requirements that set apart the inventories from the private sector and require inventories be measured at the lower of cost and current replacement cost only when inventories are held for distribution at no or for a nominal charge (see paragraph 5(b)).
11. Since inventory that is held for distribution at no or for a nominal charge, such as educational books produced by a health authority for donation to schools, is not going to be sold at market prices, testing their impairment when compared to an exit price, i.e., net realizable value, would not present users with relevant information. The IPSASB decided more relevant information is to provide users with the cost the entity would incur to acquire the asset, i.e., current replacement cost.
12. Current replacement cost and COV are both amounts that the entity would pay for the asset and share key principles:
  - (a) An **entry value**, the amount the entity would pay/incur to acquire the asset.
  - (b) The current condition of the **existing asset** (i.e., physical deterioration, functional (technological) obsolescence and economic (external) obsolescence).
13. Since the guidance to measure inventories using current replacement cost is public sector specific guidance, and the principles align with COV, staff are of the view the IPSASB should replace current replacement cost with COV to reflect the IPSASB updated measurement methodology in IPSAS 46. Staff do not believe replacing current replacement cost with COV will result in measurement

differences, but rather aligns the IPSASB's updated measurement methodology that has evolved since IPSAS 12 was published in 2001.

**Inventories acquired through a non-exchange transaction**

14. IPSAS 12 also requires inventories acquired through a non-exchange transaction, that their cost shall be measured at their fair value as at the date of acquisition. This requirement continues to be appropriate for inventories that are subsequently measured at the lower of cost and net realizable value because, as noted in paragraph 8, these inventories are held for their financial capacity and the IPSASB agreed when developing IPSAS 46, fair value is the most relevant measurement for assets held for their financial capacity.
15. However, for inventories subsequently measured at the lower of 'cost and current replacement cost', given the recommendation to replace current replacement cost with COV, staff recommend this be extended to initial measurement on inventories acquired in a non-exchange transaction. This is consistent with the IPSASB decision in December 2022 for items of property, plant, and equipment held for their operational capacity to be initially measured at COV when acquired through a non-exchange transaction.

**Decision Required**

16. Does the IPSASB agree with Task Force and staff [recommendation](#)?

## **Impairment: Revised Definition of Fair Value and Recoverable Service Amount**

### **Question**

1. Does the IPSAB agree with the recommendation in paragraph **Error! Reference source not found.**?

### **Recommendation**

2. Task Force and staff recommend:
  - (a) "Fair value less costs to sell" is retained as a component of recoverable service amount; and
  - (b) The revised definition of "fair value less costs to sell" is based on the definition of fair value in IPSAS 46, *Measurement*:

*The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the costs of sale.*
  - (c) Supporting guidance makes it clear that for most assets held for operational capacity, in particular specialized assets, current operational value (COV) will be the relevant metric for determining recoverable service amount and it will be unnecessary to determine fair value less costs to sell.

### **Purpose of this Agenda Item**

3. The purpose of this agenda item is to consider whether the definition of, and supporting assumptions on, fair value in IPSAS 46, *Measurement*, are appropriate for incorporation as a component of recoverable service amount in an updated IPSAS 21, *Impairment of Non-Cash-Generating Assets*. This agenda paper assumes that, while the definition of "recoverable service amount" might change as a result of this project, the term is robust and will be retained.

### **Background**

4. At the June meeting the IPSASB agreed that the scope of its limited-scope review of IPSAS 21 should be limited to the components of recoverable service amount<sup>3</sup>. In particular whether:
  - (a) The definition of fair value in IPSAS 46 is appropriate for determining recoverable service amount; and
  - (b) COV can be used as a surrogate for value in use of a non-cash-generating asset or as a component of recoverable service amount in its own right (see [Agenda Item 8.2.4](#)).

### **Current Requirements in IPSAS 21**

5. IPSAS 21 defines an impairment as "a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation".
6. When one or more indicators of impairment are identified<sup>4</sup>, IPSAS 21 requires that the asset is tested for impairment by comparing the carrying amount of the asset with the asset's recoverable service

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<sup>3</sup> The June agenda paper contained some background to the development and approval of IPSAS 21 and identified the main differences between IAS 36, *Impairment of Assets*, and IPSAS 21. This material is in Appendix A of this agenda item.

<sup>4</sup> IPSAS 21 provides a non-exhaustive list of external and internal indicators of impairment. See paragraphs 27-29 of IPSAS 21.

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amount. Recoverable service amount is “the higher of fair value less costs to sell and value in use of a non-cash generating asset”. If recoverable service amount is lower than carrying amount an impairment loss is recognized for the difference between the two measures.

- (a) Fair value less costs to sell is “the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal”.
  - (b) The “value in use of a non-cash-generating asset” is defined as “the present value of the asset’s remaining service potential”. The issue of whether “value in use of a non-cash-generating asset” should be retained in the definition of recoverable service amount or replaced by current operational value is considered in [Agenda Item 8.2.4](#).
7. Recoverable service amount gives a floor for the measurement of an asset following an indication of impairment — an amount which a revised carrying amount cannot go below (i.e., the price the asset could be sold for, or the value of the asset in operation).

### Analysis

8. The definition of fair value in IPSAS 46 is:
- 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.*
9. The value premise for this definition of fair value is underpinned by the “highest and best use” assumption. 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 from the perspective of a market participant.
10. The relevance of fair value for impairment testing for assets held for their operational capacity depends on the extent of specialization of the asset.
11. Determining fair value will be straightforward for non-specialized assets held for operational capacity using the market approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets. For example, where there has been a permanent cessation of demand for a service leading to an administrative building having twice as much capacity as now needed, fair value less costs to sell may be considerably higher than COV, because, unlike COV, fair value adopts the highest and best use principle. Fair value is determined from the perspective of a market participant.
12. Determining fair value is more difficult for non-cash-generating specialized assets<sup>5</sup> where market information is unlikely to be observable. In such cases, the cost approach would be the appropriate measurement technique. The cost approach reflects the amount that would be required currently to replace the service provided by an asset through the acquisition, construction, or development of a substitute asset. In staff’s view, because the cost approach is a measurement technique for COV<sup>6</sup> it

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<sup>5</sup> The term ‘specialized asset’ is not defined in either IPSAS 45, *Property, Plant and Equipment*, or IPSAS 17, *Property, Plant and Equipment*. In the context of COV, paragraph B35 of Appendix B states that ‘more specialized the asset the less likely an active market exists, and the more likely the cost approach will need to be applied.’ This also applies to fair value.

<sup>6</sup> This paragraph, and subsequent paragraphs, assume that the recommendation to adopt COV directly as a component of recoverable service amount in Agenda Item 8.2.4 is accepted.

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will be unnecessary to determine fair value where there is an indication of impairment, because fair value will be the same.

### Way Forward

13. While acknowledging that fair value will not be relevant for specialized assets, staff considers that there will be cases where it may provide relevant and faithfully representative information for determining impairments for assets held for operational capacity. Staff therefore considers that fair value less costs to sell should be retained as a component of recoverable service amount.
14. This requirement should be complemented by guidance that for most assets held for operational capacity, in particular specialized assets, COV will be the relevant metric for determining recoverable service amount and it will be unnecessary to determine fair value less costs to sell.
15. Staff proposes that the revised definition of fair value less costs to sell should be:

*The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the costs of sale.*

### Decision Required

16. Does the IPSASB agree with Task Force and staff [recommendation](#) in paragraph **Error! Reference source not found.** on the suitability of the revised definition of fair value as a component of recoverable service amount with supporting guidance that for many assets?

**Appendix A - Background to Development and Approval of IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and Main Differences IAS 36, *Impairment of Assets***

1. IPSAS 21 was approved in December 2004. While primarily drawn from IAS 36, *Impairment of Assets*, the scope of IPSAS 21 is limited to non-cash-generating assets. Non-cash-generating assets are defined by reference to the definition of cash-generating assets as “assets other than cash-generating assets.” Cash-generating assets are defined as ‘assets held with the primary objective of generating a commercial return. For the purposes of impairment, goodwill is considered a cash generating asset.’ Paragraphs 18-20 of IPSAS 21 provide guidance on the approach where an asset both generates cash flows and is used for non-cash-generating purposes.
2. When approved, IPSAS 21 did not apply to non-cash-generating assets carried at revalued amounts. Amendments in 2016 brought such assets within the scope of IPSAS 21. At the time of IPSAS 21’s approval the expectation was that entities would apply IAS 36 in determining impairments for cash-generating assets. Subsequently, the IPSASB approved IPSAS 26, *Impairment of Cash-Generating Assets*, in 2007.
3. The main differences between IPSAS 21 and IPSAS 36 are:
  - (a) The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset’s remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
  - (b) IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
  - (c) IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
  - (d) IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
  - (e) IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.

## **Impairment: Retention or Replacement of Value in Use of a Non-Cash-Generating Asset in Recoverable Service Amount**

### **Question**

1. Does the IPSASB agree with the recommendation in paragraph **Error! Reference source not found.**?

### **Recommendation**

2. Task Force and staff recommend that current operational value (COV) should replace “value in use of a non-cash-generating asset” as a component of recoverable service amount in its own right.

### **Purpose of this Agenda Item**

3. The purpose of this agenda item is to consider whether COV should be a replacement for, or surrogate for, “value in use of a non-cash generating asset” in an updated IPSAS 21, *Impairment of Non-Cash-Generating Assets*. As stated in [Agenda Item 8.2.3](#) the assumption is that, while the definition of “recoverable service amount” might change as a result of this project, the term is robust and will be retained.

### **Background**

4. At the June meeting staff presented an agenda item on the scope of the limited scope impairment project in the Measurement-Application Phase. The IPSASB agreed that the scope should be limited to the components of recoverable service amount in IPSAS 21; in particular whether:
  - (a) The definition of fair value and supporting assumptions in IPSAS 46 are appropriate for determining recoverable service amount (see [Agenda Item 8.2.3](#))
  - (b) COV can be used as a surrogate for value in use of a non-cash-generating asset or as a component of recoverable service amount in its own right.
5. The June agenda paper contained some background to the development and approval of IPSAS 21, and identified the main differences between IAS 36, *Impairment of Assets*, and IPSAS 21. This material is in [Appendix A](#) of [Agenda Item 8.2.3](#).
6. This paper compares the definition of value in use of a cash-generating asset in IPSAS 21 with the definition of COV in IPSAS 46, *Measurement*. It also considers whether the term “value in use of a non-cash-generating asset” is appropriate for requirements and guidance for assets held for their operational capacity.

### **Current Requirements in IPSAS 21**

7. Paragraphs 5 to 7 of [Agenda Item 8.2.3](#) provide the definitions of an impairment and recoverable service amount. They also discuss the circumstances under which recoverable service amount must be determined. In IPSAS 21 the “value in use of a non-cash-generating asset” is defined as “the present value of the asset’s remaining service potential”.
8. IPSAS 21 describes three methods of determining the present value of an asset’s remaining service potential. IPSAS 21 also provides guidance and non-authoritative illustrative examples of the application of these methods:
  - (a) Depreciated replacement cost.



- (b) Restoration cost.
- (c) Service units approach.

### **Analysis and Way Forward**

9. Staff have identified three options for requirements and guidance for impairment of assets:
  - (a) Retain the current definition of “value in use of a non-cash-generating asset”, the methods of determining the present value of an asset’s remaining service potential, and the accompanying guidance and illustrative examples.
  - (b) Use COV as a surrogate for value in use of a cash-generating asset in the determination of recoverable service amount.
  - (c) Use COV as a component of recoverable service amount in its own right.
10. Approaches (b) and (c) do not retain the three methods of determining recoverable service amount in IPSAS 21. The next sections evaluate these options.

### *Retain Current Definition, Supporting Approaches, Accompanying Guidance and Illustrative Examples*

11. Approach (a) would retain the definitions, methods and guidance that has been in IPSASB’s standards-level literature since IPSAS 21’s approval and publication in 2004. There have been no indications of any issues in the application of IPSAS 21.
12. Staff considers that the term “present value” in the definition of “value in use of a non-cash-generating asset” implies a discounted cash flow approach. However, none of the three methods in IPSAS 21 involve risk adjustments and discounting cash flows to a present value. In the view of staff, the use of the term “present value” was to create a link to the defined term “value in use” in IAS 36, *Impairment of Assets*, despite the very different approaches to determining recoverable service amount in IPSAS 21 and recoverable amount in IPSAS 26, *Impairment of Cash-Generating Assets*. This means that “value in use” in IPSAS 21 is not being used in the same way as in IPSAS 26 and IAS 36. In its standards development and maintenance IPSASB has aimed to ensure that the same, or similar terms, are used in the same way as in International Financial Reporting Standards.
13. The current requirements and guidance in IPSAS 21 are also inconsistent with both IPSAS 46 and the Conceptual Framework. IPSAS 46 does not include depreciated replacement cost as a measurement technique, although the cost technique which supports both COV and fair value is similar. Unlike IPSAS 21 and IPSAS 17, *Property, Plant and Equipment*, IPSAS 46 also does not include restoration cost or the service units approach as methods of estimating fair value for specialized items of property, plant and equipment. The Conceptual Framework did not retain replacement cost in the recently revised Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, because of the introduction of COV and the similarity of replacement cost and the cost approach.
14. Staff does not favor retention of an approach that does not use value in use consistently with IPSASB and IASB literature and includes techniques that are no longer in the IPSASB literature.

### *Current Operational Value as a Surrogate*

15. The definition of current operational value in IPSAS 46 is:

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*The amount the entity would pay for the remaining service potential of an asset at the measurement date.*

16. Unlike fair value, COV reflects the value of an asset in its existing use rather than the asset's highest and best use (see [Agenda Item 8.2.3](#)). In assessing the remaining service potential of an asset COV takes into account the current age, functionality, and condition of the asset and reflects factors such as physical, functional, and economic obsolescence.
17. Because COV reflects the amount that an entity would pay for the remaining service potential of an asset in its existing condition, its existing use, and its existing location it reflects the value of the asset to the entity, COV is therefore appropriate for determining an impairment loss (or a reversal of an impairment loss).
18. Nevertheless, staff does not favor Approach (b) because it would retain the defined term "value in use of a non-cash-generating asset". As for Approach (a) this is inconsistent with the term "value in use" in IAS 36 and IPSAS 26 as discussed in paragraph 12.

### *Current Operational Value as a Component of Recoverable Service Amount*

19. In Approach (c) the components of recoverable service amount will be fair value and COV. Replacing "value in use of a non-cash-generating asset" with COV will update the terminology in IPSAS 21 to reflect the measurement methodology in IPSAS 46. This is consistent with the main principle of impairment testing that the carrying amount of an asset should be written down to the higher of:
  - (a) The amount for which the asset could be sold (i.e., fair value); or
  - (b) The value of the asset in operation (i.e., current operational value).
20. Where an entity has selected the current value model for subsequent measurement it will already be presenting assets held for operational capacity at COV in accordance with IPSAS 45, *Property, Plant and Equipment* and IPSAS 46. The use of COV as a component of recoverable service amount will therefore have cost-benefit advantages for entities that have adopted the current value model.
21. The impairment indications in IPSAS 21 are a further reinforcement of the requirement in paragraph 29 of IPSAS 45 that "revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date". In practice many public sector entities on the current value model will be remeasuring assets on "a rolling basis" every three or five years, so the use of COV for impairment purposes will complement the requirements in IPSAS 45 and contribute to financial information that meets the objectives of financial reporting and the qualitative characteristics.

### *Conclusion*

22. Staff supports Approach (c).

### **Decision Required**

23. Does the IPSAB agree with Task Force and staff [recommendation](#) in paragraph 2 that COV should replace value in use of a non-cash-generating asset as a component of recoverable service amount?

## **Analysis of COV Applicability to IPSAS 40, *Public Sector Combinations***

### **Question**

1. Does the IPSASB agree with the recommendation?

### **Recommendation**

2. Task Force and staff recommends that the applicability of current operational value (COV) should be retained in the individual IPSAS as opposed to being included in IPSAS 40, *Public Sector Combinations*.

### **Background**

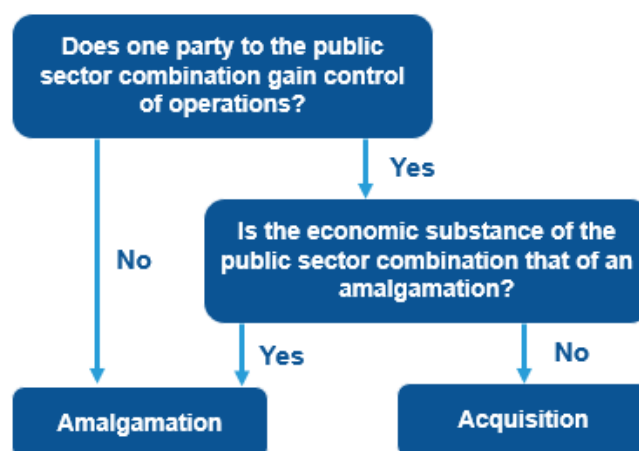
3. In March 2023, the IPSASB decided that IPSAS 40 was in the scope of the Measurement Application Phase. IPSAS 40 sets out the requirements for the application of the modified pooling of interests method to recognize amalgamations and the acquisition method to recognize acquisitions.

### **Analysis**

#### *Scope of IPSAS 40*

4. A public sector combination, amalgamation or acquisition, is the bringing together of separate operations<sup>7</sup> into one public sector entity.
  - (a) A resulting entity shall account for each amalgamation by applying the modified pooling of interests method of accounting.
  - (b) An acquirer shall account for each acquisition by applying the acquisition method of accounting.

The classification of public sector combinations as an amalgamation or acquisition depends on the below factors:



#### *Applicability of Current Operational Value*

5. COV is the amount the entity would pay for the remaining service potential of an asset. It is a subsequent measurement basis developed for assets held for their operational capacity.

<sup>7</sup> An operation is an integrated set of activities and related assets and/or liabilities.

6. The modified pooling of interest method and the acquisition method present information that is useful in holding the entity to account and for decision-making purposes because they measure the economic substance of the transactions in the scope of IPSAS 40, which is the bringing together of separate operations into one public sector entity. Thus, the economic substance is broader than the measurement of an asset.

#### Amalgamations

7. The modified pooling of interest method of accounting requires<sup>8</sup> recognizing and measuring the identifiable assets received, the liabilities assumed and any noncontrolling interest in the combining operations consistent with the requirements in relevant IPSAS (i.e., carrying amount). Therefore, the carrying amounts of the identifiable assets received will already be measured at COV (where applicable).
8. IPSAS 40 requires assets to be subsequently measured in accordance with the related IPSAS<sup>9</sup>. For example, determining the measurement of property, plant, and equipment acquired in an amalgamation is determined in accordance with IPSAS 45, *Property, Plant, and Equipment*. As such, the application of COV is already applied where the IPSASB has determined that COV is an applicable current value measurement basis for the specific assets.

#### Acquisitions

9. The acquisition method requires the acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired operation at their acquisition date fair values<sup>10</sup>. Any gain or loss from the acquisition is recognized as goodwill<sup>11</sup>.
10. Staff considers that measuring the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired operation at fair value continues to be relevant because:
- (a) The guidance on acquisition accounting in IPSAS 40 is aligned with IFRS 3, *Business Combinations* and when IPSAS 40 was developed the IPSASB agreed the measurement at acquisition at fair value was applicable to the public sector (IPSAS 40 was issued in January 2017). Staff has not identified public sector specific reasons to depart from this initial measurement.

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<sup>8</sup> For simplicity purposes only requirements related to asset measurement were included. Refer to IPSAS 40 paragraph 16 for additional recognition and measurement requirements in the modified pooling of interest method.

<sup>9</sup> IPSAS 40 provides specific guidance on subsequently measuring and accounting for the following assets received:

- a) About the amortization period/annual impairment test of a license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset.
- b) Prospective recognition for tax forgiven in accordance with relevant international or national accounting standards dealing with income taxes.

This specific guidance is not considered to impact the analysis of the applicability of COV in IPSAS 40.

<sup>10</sup> IPSAS 40 provides limited exceptions to its recognition and measurement principles. Some of which include:

- a) Income tax forgiven shall not be recognized where included as part of the acquisition.
- b) Indemnification assets shall be recognized at the same time as the indemnified item and measured on the same basis.

This specific guidance is not considered to impact the analysis of the applicability of COV in IPSAS 40.

<sup>11</sup> IPSAS 40 notes that an acquirer shall not recognize goodwill of an acquired operation in a non-exchange transaction in which it transfers no consideration. Rather, the acquirer shall recognize a gain or a loss in surplus or deficit.

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- (b) It reflects the economic substance of the transaction, which is the bringing together of separate operations into one public sector entity and changing the initial measurement of certain assets to COV will be a departure of existing guidance on the determination of goodwill, which is aligned with IFRS and is a globally understood concept.
11. In general, an acquirer shall subsequently measure<sup>12</sup> and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable IPSAS for those items, depending on their nature. Similar to paragraph 8, COV shall be applied where the IPSASB has determined that COV is an applicable current value measurement basis for the specific assets.

### Decision Required

12. Does the IPSASB agree with Task Force and [recommendation](#)?

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<sup>12</sup> IPSAS 40 provides specific guidance on subsequently measuring and accounting for the following assets received. Some of which include:

- a) About the amortization period/annual impairment test of reacquired rights.
- b) Indemnification assets shall be measured on the same basis as the indemnified liability or asset.
- c) Account for the tax forgiven prospectively in accordance with the relevant international or national accounting standard dealing with income taxes.

This specific guidance is not considered to impact the analysis of the applicability of COV in IPSAS 40.

**Analysis of COV Applicability to IPSAS 32, *Service Concession Arrangements: Grantor***

**Question**

1. Does the IPSASB agree with the recommendation?

**Recommendation**

2. Task Force and staff recommend that conceptually current operational value applies as a subsequent measurement basis for service concession assets.

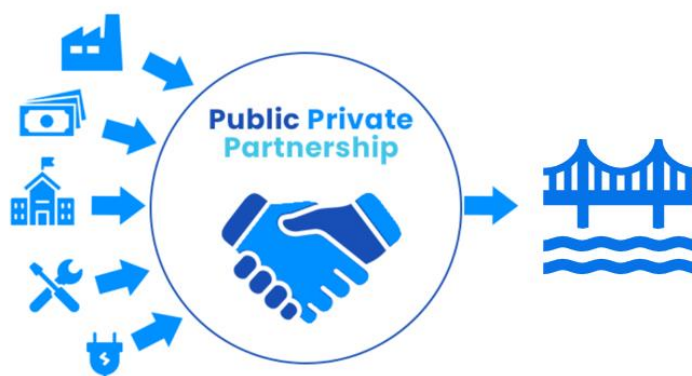
**Background**

3. In March 2023, the IPSASB decided that IPSAS 32 was in the scope of the Measurement Application Phase, because it permits subsequent measurement of service concession assets at current value measurement bases.

**Analysis**

*Relevant guidance from IPSAS 32*

4. A public sector entity shall recognize a service concession asset<sup>13</sup>, when it enters into a binding agreement with a private sector entity who operates the asset<sup>14</sup>, when the public sector entity (grantor) controls or regulates what service the operator must provide, to whom, at what price, and has a significant residual interest in the asset at the end of the term of the arrangement<sup>15</sup>. An example of a service concession asset could be a state government toll bridge that is operated and maintained by a private sector entity.



<sup>13</sup> A service concession asset is an asset used to provide public services in a service concession arrangement that:

- (a) Is provided by the operator which:
  - (i) The operator constructs, develops, or acquires from a third party; or
  - (ii) Is an existing asset of the operator; or
- (b) Is provided by the grantor which:
  - (i) Is an existing asset of the grantor; or
  - (ii) Is an upgrade to an existing asset of the grantor.

<sup>14</sup> Asset provided by the operator and an upgrade to an existing asset of the grantor.

<sup>15</sup> See paragraphs 9 and 10 in IPSAS 32 for specific recognition criteria.

5. IPSAS 32 generally requires the initial measurement of a service concession asset at fair value, except where an existing asset of the grantor is used.
6. After initial recognition or reclassification a service concession asset is accounted for in accordance with IPSAS 45, *Property, Plant and Equipment* or IPSAS 31, *Intangible Assets*<sup>16</sup>.

*Applicability of COV*

7. IPSAS 32 defines a service concession asset as an asset used to provide public services. The application guidance in IPSAS 32 notes that from the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the public sector grantor<sup>17</sup>. Therefore, a service concession asset is held for its operational capacity. The IPSASB developed COV for assets held for its operational capacity, thus conceptually COV is an appropriate measurement basis.
8. For example, a water management plant minimizes damage to life and property, by reducing the risk of harm due to flooding. Water management is a public service that public sector entities provide to their constituents. A public sector entity can enter into a binding arrangement in the scope of IPSAS 32 where a private sector entity constructs, operates, and maintains a water management plant.
9. COV is a subsequent measurement basis, that can be considered for initial recognition when the entity acquires an asset in a non-exchange transaction<sup>18</sup>. Because service concession arrangements are exchange transactions rather than non-exchange transactions<sup>19</sup> the applicability of COV at initial measurement is not appropriate in IPSAS 32.

*Analysis*

10. The subsequent measurement of a service concession asset is in accordance with IPSAS 45 or IPSAS 31. This is because when an entity meets the recognition criteria in IPSAS 32, the recognize the underlying asset on their balance sheet (i.e., the asset being managed by the operator, for example the bridge, highway or road, etc.).

**IPSAS 45.** Most assets in the public sector are used to provide public services. When assets are held for their operational capacity, and are measured at current value in IPSAS 45, they are measured at COV. When assets are held for their financial capacity, and are measured at current value in IPSAS 45, they are measured at fair value. IPSAS 32 notes that subsequent measurement requirements of a service concession asset are in accordance with IPSAS 45. Given the same underlying asset is being measured and presented, consistency in the principle is a sensible conclusion, as it ensures comparability.

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<sup>16</sup> This agenda item reflects the consequential amendments made to IPSAS 31, *Intangible Assets* by IPSAS 46, *Measurement* and made to IPSAS 32, *Service Concession Arrangements: Grantor* by IPSAS 45, *Property, Plant, and Equipment*. As well as assess COV as per IPSAS 45 (IPSAS 17, *Property, Plant, and Equipment* will be superseded by IPSAS 45).

<sup>17</sup> IPSAS 32, paragraph AG22.

<sup>18</sup> During the development of IPSAS 45, *Property, Plant, and Equipment*, the IPSASB introduced COV as a current value measurement applicable to determine deemed cost of a non-exchange transaction.

<sup>19</sup> IPSAS 32, paragraph BC21 - During the development of IPSAS 32, the IPSASB noted that service concession arrangements are exchange transactions rather than non-exchange transactions.

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**IPSAS 31.** Assets recognized using IPSAS 31 may be measured at their current values in subsequent measurement. While The analysis of the applicability of COV in IPSAS 31 is expected to be completed in December 2023, consistent with the IPSAS 45 analysis, because the same underlying asset is being measured and presented, the conclusion reached in IPSAS 31 will apply to IPSAS 32. Maintaining consistency in the principle is a sensible conclusion, as it ensures comparability.

11. Practically, IPSAS 46 includes two measurement techniques for an entity to determine COV:
- (a) The market approach uses observable prices and other relevant information generated by market transactions involving identical or comparable assets to derive a current value for the asset.
  - (b) The cost approach is the amount that would be required to currently replace the service capacity of an asset, in other words, the cost to develop or produce the identical or similar asset.

The market approach requires the existence of an active market in which an observable price can be determined. While the cost approach is to be applied where no active market exists for a similar or identical asset. Conceptually, either of these approaches can be applied to determine the subsequent measurement of a service concession asset (IPSAS 31 or IPSAS 45). When these measurement techniques can be applied, the current service concession asset is expected to most fairly reflect the transaction in a manner that is useful in holding the entity to account and for decision making purposes.

### Decision Required

12. Does the IPSASB agree with Task Force and staff [recommendation](#)?



## **Analysis of COV Applicability to IPSAS 43, *Leases***

### **Question**

1. Does the IPSASB agree with the recommendation?

### **Recommendation**

2. The task force and staff recommend that current operational applies as a subsequent measurement basis for right-of-use assets.

### **Background**

3. In March 2023, the IPSASB decided that IPSAS 43 was in the scope of the Measurement Application Phase, because lessee accounting permits subsequent measurement of assets at current value measurement bases.

### **Analysis**

#### *Relevant guidance from IPSAS 43*

4. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
5. IPSAS 43 requires the initial measurement of the right-of-use asset at cost, which is comprise of:
  - (a) The amount of the initial measurement of the lease liability<sup>20</sup>;
  - (b) Any lease payments made at or before the commencement date, less any lease incentives received;
  - (c) Any initial direct costs incurred by the lessee; and
  - (d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset<sup>21</sup>.
6. At subsequent measurement a lessee shall measure a right-of-use asset applying<sup>22</sup>:
  - (a) The historical cost model<sup>23</sup>, unless it applies (b) or (c) below:
  - (b) The current value model shall be applied to right-of-use assets meeting the definition of investment property in IPSAS 16, *Investment Property*, when a lessee applies the fair value model.

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<sup>20</sup> IPSAS 43, paragraph 27 requires the initial measurement of the lease liability at the present value of the lease payments that are not paid at that date.

<sup>21</sup> As well as: restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period. [IPSAS 43.25(d)]

<sup>22</sup> IPSAS 45, *Property, Plant and Equipment* issued in May 2023 made consequential amendments to IPSAS 43 which are reflected in this paper.

<sup>23</sup> To apply a historical cost model, a lessee shall measure the right-of-use asset at cost:

- (a) Less any accumulated depreciation and any accumulated impairment losses; and
- (b) Adjusted for any remeasurement of the lease liability specified in IPSAS 43, paragraph 37(c).

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- (c) An entity may elect to apply the current value model in IPSAS 45, *Property, Plant, and Equipment*, when the right-of-use assets relate to a class of property, plant, and equipment to which the lessee applies the current value model.

### *Applicability of COV*

7. This agenda item evaluates the applicability of COV in IPSAS 43 where an entity elects to apply the current value model in IPSAS 45 and the right-of-use asset relates to property, plant, and equipment where the lessee applies the current value model (paragraph 6(c)).

### *Analysis*

8. Based on the principles established in IPSAS 46, *Measurement*, and its application in IPSAS 45, there are reasons to permit the measurement of right-of-use assets using COV:
- (a) **Operational capacity.** The IPSASB developed COV for the measurement of assets held for their operational capacity (i.e., its service potential). An asset under a lease contract that is used by the lessee to provide services or goods that contribute to achieving the entity's objectives is an asset held for its operational capacity.
  - (b) **IPSAS 45.** When an entity decides to use an asset, it is often faced with the option to purchase the asset and apply IPSAS 45, or lease the asset, and apply IPSAS 43. When assets are held for their operational capacity, and apply the current value model in IPSAS 45, they are measured at COV. When assets are held for their financial capacity, and apply the current value model in IPSAS 45, they are measured at fair value. To maintain consistency in presentation, the same principle could be applied to right of use assets. For example, a public sector hospital which provides services for free and owns a medical device would subsequently measure the device at COV when applying IPSAS 45. To maintain consistency, when an entity enters into a lease contract of the same device, COV should also be required.
9. IPSAS 46 includes two measurement techniques for an entity to determine COV:
- (a) The market approach uses observable prices and other relevant information generated by market transactions involving identical or comparable assets to derive a current value for the asset.
  - (b) The cost approach is the amount that would be required to currently replace the service capacity of an asset, in other words, the cost to develop or produce the identical or similar asset.

The market approach requires the existence of an active market in which an observable price can be determined. While the cost approach is to be applied where no active market exists for a similar or identical asset. Conceptually, either of these approaches can be applied to determine the subsequent measurement of a right-of-use asset in IPSAS 45. When these measurement techniques can be applied, the current value of a right-of-use asset is expected to most fairly reflect the transaction in a manner that is useful in holding the entity to account and for decision making purposes.

### **Decision Required**

10. Does the IPSASB agree with Task Force and staff [recommendation](#)?

## **Definition of Accounting Estimates and Consistent Application of the Term ‘Measurement Techniques’**

### **Question**

1. Does the IPSASB agree with the staff's recommendation to update the proposed improvements to IPSAS 3 for public sector terminology?

### **Recommendation**

2. Staff recommends the IPSASB:
  - (a) Amend IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, to add the definition of accounting estimate; and
  - (b) Update the IPSAS 3 improvement for public sector terminology related to ‘measurement techniques’.

### **Background**

3. In June 2023, the IPSASB discussed improvements to IPSAS. One amendment was based on the IASB amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.
4. Members noted the proposed amendment to IPSAS 3 would lead to inconsistent application of the term ‘measurement techniques’ in IPSAS and instructed staff to assess the impact of the IASB publication *Definition of Accounting Estimates* (Amendments to IAS 8) on IPSAS 46, *Measurement* and on the Measurement: Application Phase.

### **Analysis**

#### Amendments to IPSAS 3

*What is the nature of the improvement?*

5. In February 2021, the IASB issued improvements to IAS 8. These improvements introduced the definition of accounting estimates and explain its application to help entities distinguish changes in accounting estimates from changes in accounting policies.
6. The change made by the improvement to IAS 8 addressed difficulties entities faced in distinguishing changes in accounting policies from changes in accounting estimates. The IASB noted such difficulties arose because the previous definition of a ‘change in accounting estimate’ in IAS 8 was not sufficiently clear.

*Are the amended IAS paragraphs aligned with IPSAS?*

7. The February 2021 improvements to IAS 8 are to paragraphs that exist and are aligned in IPSAS 3. The IPSASB has not omitted or amended the related IAS 8 paragraphs in the past for public sector differences.

*Are the improvements applicable to the public sector?*

8. IPSAS 3 includes definitions of ‘accounting policies’ and ‘change in accounting estimate’. The combination of a definition of one item (accounting policies) with a definition of changes in another item (change in accounting estimate) obscures the distinction between accounting policies and

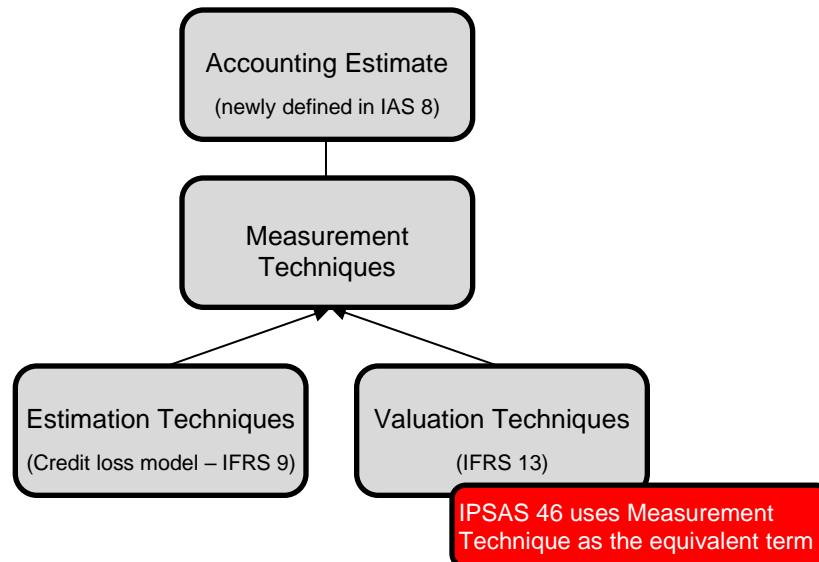
accounting estimates and can lead to differences in interpretation and result in inconsistent accounting in the public sector.

9. An accounting estimate, and a change in one, are consistent in the public and private sector. In both the public and private sector, an entity develops an accounting estimate to achieve the objective set out by an accounting policy.
10. Incorporating the IAS 8 improvements that replace the definition of a 'change in accounting estimate' with a definition of 'accounting estimates', and explaining its application, into IPSAS 3 clearly distinguishes between the two key concepts in IPSAS 3 – accounting policy and accounting estimate – making the guidance more straightforward to apply in practice.
11. These improvements are applicable and appropriate in the public sector, will maintain alignment with IAS 8, clarify existing guidance, and have been tested through the IASB's due process. Therefore, staff recommend the amendments to be included in the Measurement: Application Phase ED.

### Consistency of in the use of 'Measurement Technique'

12. To support the interpretation of 'accounting estimates', the improvements to IAS 8 explain:
  - (a) Accounting estimates are outputs of measurement techniques; and
  - (b) Measurement techniques an entity uses to develop accounting estimates include estimation techniques<sup>24</sup> and valuation techniques<sup>25</sup>.

**Figure 2 – IAS 8 Terminology**



13. This clarification is useful. However, a public sector terminology difference exists. IPSAS 46, *Measurement* uses 'measurement techniques' in place of 'valuation techniques':

<sup>24</sup> **Estimation techniques.** For example, techniques used to measure a loss allowance for expected credit losses applying IFRS 9, *Financial Instruments*

<sup>25</sup> **Valuation techniques.** For example, are techniques used to measure the fair value of an asset or liability applying IFRS 13, *Fair Value Measurement*

- (a) The subsequent measurement framework developed as part of the measurement project uses the terms measurement models, measurement bases, and measurement techniques; and
- (b) 'Measurement techniques' is used throughout IPSAS 46. It represents a terminology departure with IFRS 13, *Fair Value*, which uses 'valuation technique'. IFRS 13 and IPSAS 46 are otherwise aligned.
14. Staff has identified three ways to add the clarifications to IPSAS 3:

- (a) **Include improvements verbatim.** Amending IPSAS 3, consistent with the changes to IAS 8, maintains alignment with IFRS. However, it results in inconsistencies in terminology in the IPSAS literature, specifically with the newly issued measurement suite of pronouncements. The IPSASB considered this option in June and instructed staff to analyze further.
- (b) **Align terminology with IFRS.** Amending IPSAS 46 so 'measurement/valuation techniques' is used consistently with the improvements to IAS 8 aligns with IFRS. However, this departs from the subsequent measurement framework, which the IPSASB devoted significant resources to develop and was strongly supported by respondents to the measurement ED and conceptual framework update ED.

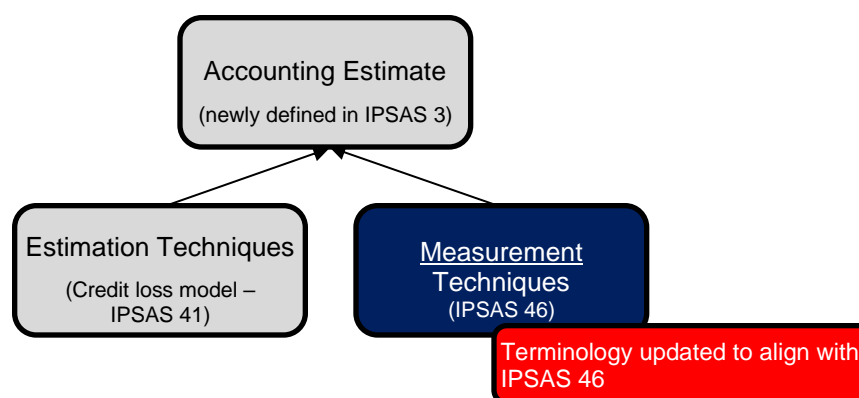
Aligning with IFRS terminology would amend IPSAS 46 to replace 'measurement techniques' with 'valuation techniques'. Amendments to terminology in other IPSAS may be required.

- (c) **Align terminology with IPSAS Measurement.** Updating the terminology in the IPSAS 3 improvements to align with IPSAS 46 maintains alignment with IFRS, but results in different terminology. This is reasonable because the terminology in IPSAS 46 was supported by stakeholders in response to the measurement suite of EDs. Furthermore, public sector terminology departures are considered at the beginning of every alignment project and are not new to developing guidance for the public sector.

Aligning the terminology in the 'improvements to IPSAS 3' with IPSAS Measurement would:

- Replace the IAS 8 'valuation techniques' term with the IPSAS 46 'measurement techniques' terminology; and
- Remove IAS 8 'measurement techniques' term (umbrella term between 'accounting estimates' the 'techniques' is unnecessary).

**Figure 2 – Proposed IPSAS 3 Terminology**



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15. Staff are of the view aligning terminology with IPSAS 46 is the most appropriate course of action. It balances the revised terminology developed by the IPSASB in its recent measurement suite of pronouncements while maintaining conceptual alignment between IAS 8 and IPSAS 3.
16. Based on staff's analysis, this improvement is better exposed as part of the measurement application phase (as opposed to annual improvements). Staff will reflect the IPSASB's September 2023 decision in the December agenda items, illustrating the terminology to be applied in IPSAS 3, and any amendments to other IPSAS necessary for consistency across the suite of standards.

### Decision Required

17. Does the IPSASB agree with the staff and Task Force's [recommendation](#)?