

AGENDA ITEM 9.3.1

Exposure Draft [XX]
Month 2024
Comments due: Month DD, 2024

IPSAS®

Proposed International Public Sector Accounting Standard®

Application of IPSAS 46,
Measurement (Amendments to
IPSAS 3, IPSAS 12, IPSAS 21,
IPSAS 31, and IPSAS 46)

IPSASB

International Public
Sector Accounting
Standards Board®



This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © Month 2024 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 25](#).

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

REQUEST FOR COMMENTS

This Exposure Draft (ED), *Application of IPSAS 46, Measurement* (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by Month [XX], 2024.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment”](#) link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

IPSASB’s Measurement Application Phase Project

In March 2023, the IPSASB commenced the development of this Exposure Draft (ED) with the primary objective of evaluating the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in [IPSAS 46, Measurement](#), and the updated objective of measurement of assets in the Updated Conceptual Framework: [Chapter 7, Measurement of Assets and Liabilities in Financial Statements](#), both published in May 2023.

Objective of the ED

The objective of this (draft) ED [XX] is to propose amendments to specific IPSAS to:

- (a) Add current operational value as an applicable current value measurement at initial and subsequent measurement for IPSAS 12, *Inventories*, and IPSAS 31, *Intangible Assets*;
- (b) Update the definition and branches of recoverable service amount in IPSAS 21, *Impairment Non-Cash Generating Assets*;
- (c) Add a definition of accounting estimate to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- (d) Clarify current value measurement disclosures in IPSAS.

The Final Pronouncement is expected to include amendments to specific IPSAS, as discussed in this (draft) ED [XX].

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

IPSAS Addressed

IPSAS	Summary of Proposed Change in ED [XX]
IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<p>Amendments to:</p> <ul style="list-style-type: none"> • Reflect that a change in measurement model rather than a change in measurement basis is a change in accounting policy. (See Part 1) • Include the definition of accounting estimates. (See Part 3)
IPSAS 12, <i>Inventories</i>	<p>Amendments to reflect that current operational value is an applicable measurement basis for inventories:</p> <ul style="list-style-type: none"> • At initial measurement acquired in non-exchange transactions; and • At subsequent measurement basis for inventories held for their operational capacity. <p>(See Part 1)</p>
IPSAS 16, <i>Investment Property</i>	<p>Amendments to enhance the consistency of current value measurement disclosure terminology across IPSAS. (See Part 4)</p>
IPSAS 27, <i>Agriculture</i>	<p>Amendments to enhance the consistency of current value measurement disclosure terminology across IPSAS. (See Part 4)</p>
IPSAS 21, <i>Impairment for Non-Cash Generating Assets</i>	<p>Amendments to:</p> <ul style="list-style-type: none"> • Update the two branches of recoverable service amount are current operational value and fair value less costs to sell; and • Remove restoration cost and service units approaches from IPSAS 21. <p>(See Part 2)</p>
IPSAS 30, <i>Financial Instruments: Disclosures</i>	<p>Amendments to enhance the consistency of current value measurement disclosure terminology across IPSAS. (See Part 4)</p>

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

IPSAS	Summary of Proposed Change in ED [XX]
IPSAS 31, <i>Intangible Assets</i>	<p>Amendments to reflect that current operational value is an applicable measurement basis for intangible assets:</p> <ul style="list-style-type: none"> • At initial measurement acquired in non-exchange transactions; and • At subsequent measurement basis for intangible assets held for their operational capacity, when an entity chooses the current value model. <p>(See Part 1)</p>
IPSAS 34, <i>Separate Financial Statements</i>	Amendments to enhance the consistency of current value measurement disclosure terminology across IPSAS. (See Part 4)
IPSAS 38, <i>Disclosure of Interest in Other Entities</i>	Amendments to enhance the consistency of current value measurement disclosure terminology across IPSAS. (See Part 4)
IPSAS 40, <i>Public Sector Combinations</i>	Amendments to replace 'valuation techniques' with 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46. (See Part 3)
IPSAS 41, <i>Financial Instruments</i>	Amendments to replace 'valuation techniques' with 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46. (See Part 3)
IPSAS 45, <i>Property, Plant, and Equipment</i>	Amendments to replace 'valuation techniques' with 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46. (See Part 3)
IPSAS 46, <i>Measurement</i>	<p>Amendments to:</p> <ul style="list-style-type: none"> • Clarify the application of the principle 'least costly manner' when measuring COV. (See Part 1) • Replace 'valuation techniques' with 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46. (See Part 3)

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

For ease of reading, the new text in Basis for Conclusions as a result of this ED has not been underlined.

The Specific Matters for Comment requested for the ED are provided below.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Specific Matter for Comment 1:

[Placeholder]

Specific Matter for Comment 2:

[Placeholder]

...

DRAFT

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPAS 21, IPSAS 31, AND IPSAS 46)

CONTENTS

Amendments: Part 1 – Applicability of Current Operational Value in IPSAS.....	8
Amendments: Part 2 – Limited scope update to IPSAS 21, Impairment of Non-Cash Generating Assets	16
Amendments: Part 3 – Definition of Accounting Estimates (IAS 8)	54
Amendments: Part 4 – Improvements to Current Value Measurement Disclosures	70

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

AMENDMENTS: PART 1 – APPLICABILITY OF CURRENT OPERATIONAL VALUE IN IPSAS

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 40 is amended. Paragraphs 40A and 59G are added. New text is underlined and deleted text is struck through.

Changes in Accounting Estimates

...

40. A change in the measurement ~~basis model~~ applied is a change in an accounting policy, and is not a change in an accounting estimate. ~~When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.~~

40A. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

Effective Date

...

59G. Paragraph 40 was amended and paragraph 40A was added by Part 1 of [draft] ED [XX], Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3.

...

Revision of IPSAS 3 as a result of Part 1 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

BC16. The IPSASB decided in March 2023 to address the inconsistency between guidance in IPSAS 3 and IPSAS 45, *Property, Plant, and Equipment* on how to account for a change in measurement basis in (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46).

BC17. During the development of IPSAS 45, the IPSASB decided in September 2022 that an entity shall measure an item of property, plant, and equipment depending on the primary objective for which the entity holds the asset. Specifically, the IPSASB decided that an item of property, plant, and equipment that an entity holds for its operational capacity shall be measured at current operational

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

value and when held for its financial capacity it shall be measured at fair value, when an entity chooses the current value model as its accounting policy choice.

- BC18. The IPSASB discussed that IPSAS 3 requires a change in measurement basis to be accounted as a change in accounting policy in accordance with IPSAS 3. However, IPSAS 45 notes that a change between current value measurement basis, when an entity chooses the current value model as its accounting policy choice, is appropriate if the primary objective for which the entity holds the item of property, plant, and equipment changes from operational capacity to financial capacity.
- BC19. The IPSASB decided to amend IPSAS 3 to reflect that a change in measurement model rather than a change in measurement basis is a change in accounting policy. When an entity chooses the current value model, instead of the historical cost model, it is making an accounting policy choice that requires an entity to develop an accounting estimate. Because current value measurement bases are accounting estimates, the change between them does not change such accounting policy choice to develop an accounting estimate. It is when an entity changes between measurement models that such accounting policy choice changes.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 12, *Inventories*

Paragraphs 1, 9, 16, 17, 31, 43, 50A, 50C(a)-50C(c), 50C(e), are 50E are amended. Paragraph 17A and 51L are added. Paragraphs BC9-BC10 are not amended but have been included for ease of reference. Heading above paragraph 43 is amended. New text is underlined and deleted text is struck through.

...

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value and current operational value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

...

Definitions

9. The following terms are used in this Standard with the meanings specified:

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

...

The term current operational value is defined in IPSAS 46, Measurement.

...

Measurement

...

16. Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their ~~fair value~~ deemed cost as at the date of acquisition. An entity shall apply IPSAS 46, Measurement when measuring the deemed cost of an inventory.
17. Inventories shall be measured at the lower of cost and ~~current replacement cost~~ current operational value where they are held for:
 - (a) Distribution at no charge (a transfer expense) or for a nominal charge; ~~or~~
 - (b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge.; or
 - (c) Consumption of materials or supplies in the rendering of services at no charge (a transfer expense) or for a nominal charge.
- 17A. An entity shall apply IPSAS 46 when measuring the current operational value of inventories measured in accordance with paragraph 17.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Cost of Inventories

...

Techniques for the Measurement of Cost

...

31. Inventories may be transferred to the entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is ~~its fair value as at the date it is acquired~~ valued using the provisions of paragraph 16.

...

Distributing Distribution and Consumption of Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the future ~~economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made~~ measured using the provisions of paragraph 17A. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

...

Current Value Measurement

- 50A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For inventories that are measured at fair value on a recurring or current operational value on a non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

...

- 50C. To meet the objectives in paragraph 50A, an entity shall disclose, at a minimum, the following information for each class of inventories (see paragraph 50D for information on determining appropriate classes of inventories) measured at fair value or current operational value (including measurements based on fair value within the scope of IPSAS 46, Measurement) in the statement of financial position after initial recognition:

- (a) For recurring fair value and non-recurring ~~fair value~~ current operational value measurements, the fair value and current operational value measurement at the end of the reporting period, and for non-recurring ~~fair value~~ current operational value measurements, the reasons for the measurement. Recurring fair value measurements of inventories are those that this Standard requires or permits in the statement of financial position at the end

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

of each reporting period. Non-recurring fair value current operational value measurements of inventories are those that this Standard requires or permits in the statement of financial position in particular circumstances (for example, when an entity measures an inventory at current operational value because the inventories' current operational value is lower than its cost)

- (b) For recurring fair value and ~~non-recurring fair value~~ measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3); For non-recurring current operational value measurements, whether the current operational value measurement is estimated using observable or unobservable inputs;
- (c) For recurring fair value and non-recurring ~~fair value~~ current operational value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value and current operational value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
- ...
- (e) For recurring fair value and non-recurring ~~fair value~~ current operational value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value and non-recurring ~~fair value~~ current operational value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- ...

- 50E. For each class of inventories not measured at fair value or current operational value in the statement of financial position but for which the fair value or current operational value is disclosed, an entity shall disclose the information required by paragraph 50C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, required by paragraph 50C(c). For such inventories, an entity does not need to provide the other disclosures required by this Standard.

Effective Date

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

- 51L. Paragraphs 1, 9, 16, 17, 31, 43, 50A, 50C(a)-50C(c), 50C(e) and 50E, are amended, paragraph 17A is added, and heading above paragraph 43 is amended by Part 1 of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

...

Revision of IPSAS 12 as a result of IPSAS 46, Measurement

- BC9. The IPSASB developed IPSAS 46 to ensure that measurement bases are applied consistently to all transactions. This pronouncement amends IPSAS 12 by:

- (a) Updating the definition of fair value to clarify its application across IPSAS and align with IFRS; and
- (b) Adding fair value disclosure requirements to help users assess the measurement techniques and inputs used to measure inventory at fair value and the effect on surplus or deficit or net assets/equity for the period.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 46.

- BC10. IPSAS 46 also introduced a public sector specific measurement basis applicable to assets held for their operational capacity. As part of its review of all measurement bases in its literature, the IPSASB considered whether current operational value should be added to, or replace, an existing measurement basis in this Standard.
- BC11. During the development of Exposure Draft 77, *Measurement*, the IPSASB had agreed to retain the current measurement bases in this Standard. The IPSASB specifically noted current replacement cost, which shares some characteristics with current operational value, should be retained, and not replaced in this Standard because when ~~IPSAS 46~~ ED 77 was issued, the IPSASB was not aware of any issues in practice when applying current replacement cost to inventory. The IPSASB agreed any changes to a specific measurement basis in this Standard should be considered as part of a standalone project related to this IPSAS. This ~~will~~ would allow stakeholders to clearly consider the implications of the proposal.
- BC12. After approving this Standard in March 2023, In March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the Updated Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Revision of IPSAS 12 as a result of Part 1 of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)*.

Reasons for Revising IPSAS 12

- BC13. In March 2023, the IPSASB commenced the evaluation of the applicability of current operational value across existing IPSAS, except for IPSAS 45, *Property, Plant, and Equipment* where the IPSASB decided current operational value was an applicable current value measurement basis for assets held for their operational capacity when the entity elects the current value model as its accounting policy choice.
- BC14. The IPSASB developed current operational value in response to constituents' concerns received in the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSASs should be in the scope of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)*, the IPSASB identified IPSAS that require measurement of assets at current values or non-historical cost measurement basis.

Scope of the Revisions

- BC15. The scope of the revisions to IPSAS 12 was limited to the evaluation of the applicability of current operational value for initial and subsequent measurement basis of inventories, as to provide more relevant measurement information for inventories held for their operational capacity.

Evaluation of the applicability of current operational value

Measurement of Inventories

- BC16. The IPSASB evaluated whether current operational value should replace current replacement cost in the measurement of inventories at the 'lower of cost and current replacement cost'. Measuring inventories at the lower of cost and current replacement cost is a public sector specific guidance for the measurement of inventories held for their operational capacity.
- BC17. The IPSASB considered that current replacement cost and current operational value are both amounts that the entity would pay for the asset at the measurement date and share key principles - entry values and reflect the current condition of the existing asset. Therefore, replacing current replacement cost with current operational value is not expected to result in measurement differences, but rather will align IPSAS 12 measurement guidance with the IPSASB's updated measurement methodology in IPSAS 46, *Measurement*.
- BC18. The IPSASB agreed that current operational value should replace current replacement cost when measuring inventories at the lower of cost and current replacement cost.

Initial Measurement of Inventories Acquired through a Non-Exchange Transaction

- BC19. The IPSASB agreed to align IPSAS 12 initial measurement of inventories (i.e., fair value) acquired through a non-exchange transaction with IPSAS 46 guidance. The alignment of the guidance resulted in an entity determining the cost of inventories at initial recognition at deemed cost, meaning at current operational value or fair value depending on whether the entity holds the inventories for their financial capacity or operational capacity. The IPSASB noted that this will prevent a revaluation of inventories to current operational value after initial recognition solely because of differences between current value measurement basis.

...

Comparison with IAS 2

IPSAS 12, Inventories is drawn primarily from IAS 2, Inventories (Revised 2003). The main differences between IPSAS 12 and IAS 2 are as follows:

...

- A definition of current operational value ~~current replacement cost~~, which is additional to the definitions in IAS 2, has been included in IPSAS 12.
- IPSAS 12 requires that where inventories are acquired through a non-exchange transaction, their cost is their deemed cost ~~fair value~~ as at the date of acquisition.
- IPSAS 12 requires that where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current operational value ~~current replacement cost~~.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 26, 28, 31, 43, 44-45, 74, 78, 121(c), 121(c)(i), 123A, 123C(a)-123C(g), and 123D-123E are amended. Paragraphs 74A, 74B, 132P and AG12-AG15 are added. The heading above paragraph AG12 and subheading above paragraph AG13 are added. New text is underlined and deleted text is struck through.

...

Recognition and Measurement

26. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

- (a) The definition of an intangible asset (see paragraphs 17–25); and
- (b) The recognition criteria (see paragraphs 28–30).

This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the deemed cost~~fair value~~ of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

...

28. An intangible asset shall be recognized if, and only if:

- (a) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- (b) The cost or current~~fair~~ value of the asset can be measured reliably¹.

...

31. An intangible asset shall be measured initially at cost in accordance with paragraphs 32–43. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its deemed cost~~fair value~~ as at that date. An entity shall apply IPSAS 46 when measuring deemed cost of an item of property, plant, and equipment.

...

Intangible Assets Acquired through Non-Exchange Transactions

43. Under these circumstances the cost of the item is its current~~fair~~ value at the date it is acquired. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its current~~fair~~ value consistent with the requirements of Paragraph 74, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 74, and the supporting commentary in paragraphs 75–86 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

...

¹ Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Exchange of Assets

44. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at currentfair value unless the currentfair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at currentfair value, its cost is measured at the carrying amount of the asset given up.
45. Paragraph 28(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The currentfair value of an intangible asset is reliably measurable if:
- (a) The variability in the range of reasonable currentfair value measurements is not significant for that asset: or
 - (b) The probabilities of the various measurements within the range can be reasonably assessed and used when measuring currentfair value.
- If an entity is able to measure reliably the currentfair value of either the asset received or the asset given up, then the currentfair value of the asset given up is used to measure cost unless the currentfair value of the asset received is more clearly evident.

...

Subsequent Measurement

...

Current Value Model

74. **After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value or current operational value at the date of the revaluation less any subsequent accumulated amortization and subsequent accumulated impairment losses. The primary objective for which an entity holds an intangible asset determines the current value measurement basis. An intangible asset held primarily for its operational capacity is measured at current operational value, and when it is held primarily for its financial capacity is measured at fair value. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.**
- 74A. The measurement basis used to measure current value, either current operational value or fair value, shall be applied consistently to an intangible asset at each measurement date, unless the primary objective for which the entity holds an intangible asset has changed. In that case a change in the current value measurement basis, from current operational value to fair value, or vice versa, is appropriate.
- 74B. **Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its current value. For the purpose of**

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

revaluations under this Standard, fair value shall be measured by reference to an active market.

...

78. The frequency of revaluations depends on the volatility of the currentfair values of the intangible assets being revalued. If the currentfair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in currentfair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in currentfair value.

...

Disclosure

General

...

121. An entity shall also disclose:
- (a) ...
 - (b) ...
 - (c) For intangible assets acquired through a non-exchange transaction and initially recognized at deemed costfair value (see paragraphs 42–43):
 - (i) The currentfair value initially recognized for these assets;

...

- 123A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**
- (a) **For intangible assets that are measured at currentfair value ~~on a recurring or non-recurring basis~~ in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
 - (b) **For ~~recurring~~ currentfair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

...

- 123C. To meet the objectives in paragraph 123A, an entity shall disclose, at a minimum, the following information for each class of intangible assets (see paragraph 123D for information on determining appropriate classes of intangible assets) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, Measurement) in the statement of financial position after initial recognition:
- (a) ~~For recurring and non-recurring fair value measurements, the fair value or current operational value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

~~measurements of intangible assets are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of intangible assets are those that this Standard requires or permits in the statement of financial position in particular circumstances;~~

- (b) For ~~recurring and non-recurring~~ fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3). For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs;
 - (c) For ~~recurring and non-recurring~~ fair value or current operational value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a ~~cost~~market approach to an ~~market~~income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
 - (d) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) ...
 - (e) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value ~~recurring fair value measurements~~ estimated using unobservable inputs, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those intangible assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
 - (f) For ~~recurring and non-recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
 - (g) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) ...
- 123D. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of intangible assets (as determined in paragraph 71) is required on the basis of the following:

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

- (a) The nature, characteristics and risks of the intangible assets; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the current~~fair~~ value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of intangible assets for which disclosures about current~~fair~~ value measurements should be provided requires judgment. A class of intangible assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an intangible asset, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

- 123E. For each class of intangible assets not measured at current~~fair~~ value in the statement of financial position but for which the fair value or current operational value is disclosed, an entity shall disclose the information required by paragraph 123C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current~~fair~~ value measurements estimated using unobservable inputs, required by paragraph 123C(c). For such intangible assets, an entity does not need to provide the other disclosures required by this Standard.

...

Effective Date

...

- 132P. Paragraphs 26, 28, 31, 43, 44-45, 74, 78, 121(c), 121(c)(i), 123A, 123C(a)-123C(g), and 123D-123E are amended, paragraphs 74A, 74B, and AG12-AG15 are added, heading above paragraph AG12 and subheading above paragraph AG13 are added by Part 1 of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 31.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Current Value Model

AG12. After recognition, an intangible asset whose current value can be measured in a faithfully representative manner may be carried at a revalued amount, being its:

- (a) Current operational value; or
- (b) Fair value;

at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Financial and Operational Capacity

AG13. The primary objective for which an entity holds an intangible asset is an important consideration when determining the current value measurement basis. An intangible asset held for its:

- (a) Operational capacity supports the provision of services in future periods through physical and other resources. This requires information on the value of the intangible asset as it is currently used by the entity. An intangible asset held with the primary objective of service delivery is held for its operational capacity and is measured at current operational value; and
- (b) Financial capacity provides an entity with the means to fund its activities. This requires information on the amount that would be received on the sale of the asset or in the revenue it generates in use. An intangible asset held with the primary objective of generating a financial return is held for its financial capacity and is measured at fair value.

AG14. In certain instances, an intangible asset may generate a financial return although it is primarily held for service delivery purposes. For example, a formula for a vaccine is primarily used to provide free vaccinations for a country's citizens, and a small amount is used for the vaccination of non-citizens for a profit.

AG15. In some cases, it may not be clear whether the intended primary objective of holding an intangible asset is for its operational or financial capacity. Judgment is needed. An entity develops criteria so that it can exercise judgment consistently in concluding whether an intangible asset is held primarily for its operational or financial capacity. When the intended primary objective of holding an intangible asset cannot be determined, given the overall objectives of most public sector entities, the presumption is that an intangible asset is held for its operational capacity.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

...

Revision of IPSAS 31 as a result of IPSAS 46, Measurement

BC14. IPSAS 46, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 31 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

- BC15. IPSAS 46 introduced current operational value, a public sector current value measurement basis. This measurement basis is primarily applied when assets are held for their operational capacity. During the development of ED 77, *Measurement*, when IPSAS 46 was issued, the IPSASB had concluded intangible assets are held for their highest and best use and measurement is therefore consistent with fair value measurement. Current operational value was therefore not added as an available measurement basis to IPSAS 31.
- BC16. In March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the Updated Conceptual Framework: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*.

Revisions of IPSAS 31 as a result of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)*

Reasons for Revising IPSAS 31

- BC17. The IPSASB developed current operational value in response to constituents' concerns received in the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSASs should be in the scope of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)*, the IPSASB identified IPSASs that require measurement of assets at current values or non-historical cost measurement basis.

Scope of the Revisions

- BC.18 The scope of the revisions to IPSAS 31 was limited to the evaluation of the applicability of current operational value for initial and subsequent measurement basis of intangible assets, as to provide more relevant measurement information for intangible assets held for their operational capacity.

Evaluation of the applicability of current operational value

Measurement of Intangible Assets

- BC19. The IPSASB discussed that intangible assets can be held for their operational capacity and that the current value measurement basis selected should reflect the intended use or the entity's reasons for holding the intangible asset.
- BC20. The IPSASB noted that the tangible assets measurement issue resulting in the development of current operational value applies to intangible assets. Because intangible assets can have an existing use that differs from its highest and best use. Additionally, the IPSASB agreed that the subsequent measurement methodology should not change depending on whether the asset is with or without physical substance, noting the importance of consistency of principles in the measurement of assets at current values when an entity chooses the current value model in IPSAS 16, *Investment Property*, IPSAS 31 or IPSAS 45, *Property, Plant, and Equipment*.
- BC21. The IPSASB agreed that current operational value should be added to the current value model in IPSAS 31 because measuring intangible assets held for their operational capacity at current operational value, when the entity chooses the current value in IPSAS 31, will present more

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

relevant measurement information to users in a manner that is useful in holding the entity to account, and for decision-making purposes.

Reference to an Active Market for Current Operational Value

- BC22. The IPSASB discussed the requirement that fair value as a subsequent measurement in the current value model shall be determined by reference to an active market for intangible assets, and whether the same requirement should apply when an entity determines the current operational value of an intangible asset.
- BC23. The IPSASB noted that this is required when determining fair value because fair value is an exit price, specifically it is the price an entity would receive from selling the asset in an orderly transaction to a market participant. Therefore, an intangible asset whose fair value is determined without a reference to an active market is not considered to provide a reliable measurement.
- BC24. The IPSASB agreed that current operational value of an intangible asset using the cost approach provides a reliable measurement because current operational value is an entity-specific entry value, meaning it is the amount the entity would pay for the remaining service potential of the asset at the measurement date.

Initial Measurement of Intangible Assets Acquired through a Non-Exchange Transaction

- BC25. The IPSASB agreed to align IPSAS 31 initial measurement of intangible assets (i.e., fair value) acquired through a non-exchange transaction with IPSAS 46 guidance. The alignment of the guidance results in an entity initially measuring the intangible assets at deemed cost, meaning at current operational value or fair value depending on whether the entity holds the inventories for their financial capacity or operational capacity. The IPSASB noted that this will prevent a revaluation in the measurement of intangible assets after initial recognition, when an entity chooses the current value model at subsequent measurement, solely because of differences between current value measurement basis.

...

Comparison with IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

- ...
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions. IPSAS 31 states that where an intangible asset is acquired through a non-exchange transaction, the cost is its deemed cost~~fair value~~ as at the date it is acquired.
- ...
- IPSAS 31 at initial measurement requires that an intangible asset acquired through a non-exchange transaction be measured at its deemed cost. IAS 38 does not have such a requirement.
- The subsequent measurement models in IPSAS 31 are historical cost and current value models, while in IAS 38 the models are cost and revaluation.
- IPSAS 31 for subsequent measurement has two measurement bases in the current value model - current operational value and fair value. IAS 38 revaluation model has only one measurement basis - fair value.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 46, *Measurement*

Paragraphs 23, and B9 are amended. Paragraph D7 and 56A are added. New text is underlined and deleted text is struck through.

...

Measurement

...

Subsequent Measurement

...

Measurement Bases

...

Current Operational Value

23. Current operational value is an entity-specific amount that the entity would pay for the remaining service potential of an asset in the least costly manner at the measurement date. Current operational value provides monetary information about assets, and related amortization, depreciation, etc., 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.

...

Effective Date and Transition

Effective Date

...

- 56A. Paragraphs 23 and B9 are amended by Part 1 of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Appendix B**Current Operational Value**

...

Measurement

...

The amount the entity would pay

...

The Least Costly Manner

- B9. A current operational value measure assumes the amount an entity would pay for the remaining service potential of an asset at the measurement date is the least costly amount for the asset in an orderly transaction (see paragraph 12).

...

Basis for Conclusions*This Basis for Conclusions accompanies, but is not part of, IPSAS 46.*

...

Current Operational Value (Appendix B)

...

Current Operational Value – Amount the Entity Would Pay

...

Revision of IPSAS 46 as a result of Part 1 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAs 12, IPSAS 21, IPSAS 31, and IPSAS 46)

BC49A. During the development of this (draft) ED [XX] and the analysis of the responses received by the IPSASB for Exposure Draft 84, Concessionary Leases and Right-o-Use Assets In-Kind, it was noted that 'least costly amount' could be interpreted to include concessionary elements, such as those received in concessionary leases, at subsequent measurement.

BC49B. The IPSASB noted that the inclusion of a concessionary element when determining the current operational value of an asset at subsequent measurement would not provide users with information that is a faithful representation of the transaction. The IPSASB agreed that the 'least costly manner' should not be interpreted to include a concessionary element, because current operational value is a measurement base that achieves the qualitative characteristics in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

BC49C. The IPSASB decided to clarify the application of the current operational value principle 'least costly manner' given the diverse interpretations raised in the December 2023 IPSASB meeting. The amendments proposed seek to ensure consistent application of current operational value.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

...

Use of Current Operational Value throughout IPSAS

- BC61. A review of existing IPSAS was performed to determine whether the public sector specific measurement basis, current operational value, should be added to, or replace, existing measurement bases in each IPSAS.
- BC62. The IPSASB agreed current operational value should be available to estimate the value of property, plant, and equipment within the scope of IPSAS 45. The IPSASB added current operational value to historical cost and fair value as measurement bases available to estimate property, plant, and equipment because many items of property, plant, and equipment are held for their operational capacity in the public sector, which may not be accurately represented when applying fair value.
- BC63. The IPSASB had identified other instances where current operational value may be appropriate throughout its literature. However, the IPSASB agreed any additional changes to measurement bases are best made through projects specific to the IPSAS in question to allow stakeholders to focus on the impact of the proposal. The IPSASB did not propose current operational value be added to any other IPSAS when this Standard was issued.
- BC64. After approving this Standard in March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the Updated Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements.

...

Disclosures

...

Improvements to Current Value Measurement Disclosures

- BC88A. As part of its review of the of the application of current operational value in (draft) ED [XX], the IPSASB reviewed the current value measurement disclosures and concluded that the term 'recurring or non-recurring' should be removed from certain current value measurement disclosures because the term 'recurring or non-recurring' is not necessary. The IPSASB considered having this term can lead to confusion when an IPSAS only requires recurring current value measurement of assets.

...

Analysis as a result of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAs 12, IPSAS 21, IPSAs 31, and IPSAS 46)

Introduction

- BC92. The IPSASB developed current operational value in response to constituents' concerns received in the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSASs

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

should be in the scope of the (draft) ED [XX], , the IPSASB identified IPSAS that require measurement of assets at current values or non-historical cost measurement basis.

BC93. The following IPSAS were in scope of the (draft) ED [XX]:

- (a) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (b) IPSAS 12, *Inventories*;
- (c) IPSAS 16, *Investment Property*;
- (d) IPSAS 21, *Impairment of Non-Cash-Generating Assets*;
- (e) IPSAS 26, *Impairment of Cash-Generating Assets*;
- (f) IPSAS 27, *Agriculture*;
- (g) IPSAS 31, *Intangible Assets*;
- (h) IPSAS 32, *Service Concession Arrangements: Grantor*;
- (i) IPSAS 36, *Investments in Associates and Joint Ventures*;
- (j) IPSAS 37, *Joint Arrangements*;
- (k) IPSAS 40, *Public Sector Combinations*;
- (l) IPSAS 41, *Financial Instruments*; and
- (m) IPSAS 43, *Leases*.

BC94. The IPSASB concluded current operational value is an applicable measurement basis:

- (a) At initial measurement, for the determination of deemed cost, for inventories (IPSAS 12) and intangible assets (IPSAS 31) acquired through a non-exchange transaction;
- (b) At subsequent measurement for inventories (IPSAS 12) held for their operational capacity;
- (c) At subsequent measurement for intangible assets (IPSAS 31) held for their operational capacity, when the entity chooses the current value model as its accounting policy choice;
- (d) At subsequent measurement for service concession assets (IPSAS 32) when the entity chooses the current value model as its accounting policy choice in accordance with IPSAS 31 or IPSAS 45; and
- (e) At subsequent measurement for right-of-use assets (IPSAS 43) when the lessee chooses the current value model as its accounting policy choice in accordance with IPSAS 45.

BC95. The IPSASB concluded current operational value is applicable to these transactions based on the intended use or the entity's reasons for holding the asset (i.e., the assets are held for their operational capacity) and current operational value will present more relevant measurement information to users in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC96. The IPSASB agreed that amendments are not required to IPSAS 32 and IPSAS 43 on the applicability of current operational value at subsequent measurement for service concession assets and right-of-use assets because these IPSAS cross reference to IPSAS 31 and IPSAS 45. Revisions of IPSAS 12 and IPSAS 31 as a result of (draft) ED [XX] are proposed, further information

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

on the amendments and the IPSASB's decision on the evaluation of current operational value can be found in IPSAS 12 and IPSAS 31.

BC97. The IPSASB concluded that current operational value is an applicable current value measurement for:

- (a) Service concession assets subsequently measured in accordance with IPSAS 31 and IPSAS 45 because consistency in the subsequent measurement methodology is a sensible conclusion, as it ensures comparability.
- (b) Right-of-use assets subsequently measured in accordance with IPSAS 45 because the subsequent measurement methodology should not change depending on whether the asset is owned or leased.

BC98. The IPSASB concluded in December 2023 to amend IPSAS 3 to reflect that a change in measurement model rather than a change in measurement basis is a change in accounting policy. Revisions of IPSAS 3 as a result of (draft) ED [XX] are proposed, further information on the amendments and the IPSASB's decision can be found in IPSAS 3.

Limited Scope Update of IPSAS 21

BC99. The IPSASB concluded that the two branches of recoverable service amount in IPSAS 21 shall be current operational value and fair value less costs and that restoration cost and service unit approaches should be removed from the updated IPSAS 21. These changes were made to enhance the usefulness of the measurement information provided and to align the measurement principles with IPSAS 46 and Chapter 7 of the Conceptual Framework. .

Definition of an Accounting Estimate (IAS 8 Updated)

BC100. The IPSASB decided for the revisions to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* included in *Definition of Accounting Estimates* (Amendments to IAS 8) issued by the IASB in February 2021 to be in the scope of Part 3 of (draft) ED [XX]. Because, if the amendments to IAS 8 were adopted in IPSAS 3 verbatim, it would result in terminology inconsistencies in the IPSAS literature, specifically with the meaning of the term 'measurement techniques' introduced by IPSAS 46. Revisions of IPSAS 3 as a result of Part 3 of (draft) ED [XX] are proposed, further information on the amendments can be found in IPSAS 3.

Implementation Guidance

...

Section D: Current Operational Value

...

D7. Does the least costly amount an entity would pay for the remaining service potential of an asset include concessionary elements received by an entity when determining the current operational value of an asset?

No. Current operational value measures the amount the entity would pay for the remaining service potential of the asset in an orderly transaction. The inclusion of a concessionary element when determining current operational value will incorporate a non-exchange element into the value and would not faithfully present relevant information to users of general purpose financial statements. For example, an entity that at

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

subsequent measurement is determining the current value of a donated asset (i.e., building), initially recognized at deemed cost, will determine the current value of the asset using current operational value or fair value, which excludes the concessionary element from its measurement.

DRAFT

AMENDMENTS: PART 2 – LIMITED SCOPE UPDATE TO IPSAS 21, IMPAIRMENT OF NON-CASH GENERATING ASSETS

Amendments to IPSAS 21, *Impairment Non-Cash-Generating Assets*

Paragraphs 14, 35, 36, 37, 38, 39, 40, 67(b), 77(e) and 77(g) are amended. Paragraphs 41, 42, 44, 45, 46, 47, 48, 49 and 50 are deleted. Paragraphs 39B, 39C, 39D and 43A are added. New text is underlined and deleted text is struck through.

...

Definitions

14. The following terms are used in this Standard with the meanings specified:

~~An active market is a market in which all the following conditions exist: [Deleted]~~

- (a) ~~The items traded within the market are homogeneous; [Deleted]~~
- (b) ~~Willing buyers and sellers can normally be found at any time; and [Deleted]~~
- (c) ~~Prices are available to the public. [Deleted]~~

...

Fair value less costs to sell is the price that would be received to sell the asset in an orderly transaction between market participants ~~amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties,~~ less the costs of disposal.

...

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its current operational value, ~~and its value in use.~~

...

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the entity; ~~or~~
- (b) ~~The number of production or similar units expected to be obtained from the asset by the entity. [Deleted]~~

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

...

The following terms are defined and are used in this Standard with the same meaning as in IPSAS 46, *Measurement*:

- (a) Active market; and
- (b) Current operational value.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Measuring Recoverable Service Amount

35. This Standard defines recoverable service amount as the higher of an asset's fair value less costs to sell and its value in use current operational value. Paragraphs 36–50 set out the basis for measuring recoverable service amount.
36. It is not always necessary to determine both an asset's fair value less costs to sell and its current operational value ~~and its value in use~~. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.
37. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. ~~Paragraph 42 sets out possible alternative bases for estimating fair value less costs to sell when an active market for the asset does not exist.~~ IPSAS 46 identifies three measurement techniques: cost, market and income. Appendix D of IPSAS 46 provides guidance on these measurement techniques and their application. However, sometimes it will not be possible to determine fair value less costs to sell, because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an orderly transaction arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use current operational value as its recoverable service amount.
38. If there is no reason to believe that an asset's value in use current operational value materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable service amount. ~~This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds.~~ However, for many public sector non-cash-generating assets that are held on an ongoing basis to provide ~~specialized~~ services or public goods to the community, the value in use current operational value of the asset is likely to be greater than its fair value less costs to sell.
39. In some cases, estimates, averages, and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or value in use current operational value.

...

Current Operational Value

- 39B. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date, regardless of whether that price is directly observable or not. Appendix B of IPSAS 46, *Measurement*, provides authoritative guidance on current operational value, including the components of the definition and the measurement techniques to estimate current operational value.
- 39C. If, as a result of an impairment, an asset that was previously operational no longer provides service potential at the measurement date its current operational value at that date is zero.
- 39D. Current operational value is likely to be relevant to the determination of recoverable service amount for many assets held for the delivery of services, especially assets which are specialized, and where there are restrictions on an alternative use to that for which the asset is currently deployed.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Fair Value Less Costs to Sell

40. Appendix D of IPSAS 46 provides authoritative guidance on fair value. The best evidence of an asset's fair value less costs to sell is an observable price in an active market a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. Appendix D of IPSAS 46 discusses measurement techniques to determine fair value indirectly and the fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value.
41. ~~If there is no binding sale agreement, but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made. [Deleted].~~
42. ~~If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management or the governing body is compelled to sell immediately. [Deleted]~~
- ...
- 43A. Fair value less costs to sell may be the determinant of recoverable service amount when an asset is non-specialized and there are no restrictions on its use, so that a market participant can deploy the asset for its highest and best use. Fair value less costs to sell may also be relevant where, as a result of an impairment, a previously operative asset does not provide service potential at the measurement date but has a scrap value.

Value in Use ~~[Deleted]~~

44. ~~This Standard defines the value in use of a non-cash generating asset as the present value of the asset's remaining service potential. Value in use in this Standard refers to value in use of a non-cash generating asset, unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs 45–49, as appropriate. [Deleted]~~

~~Depreciated Replacement Cost Approach [Deleted]~~

45. ~~Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. [Deleted]~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

46. ~~The replacement cost and reproduction cost of an asset are determined on an optimized basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features that are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset. [Deleted]~~
47. ~~In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset. [Deleted]~~

...

Service Units Approach [Deleted]

49. ~~Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower. [Deleted]~~

Application of Approaches [Deleted]

50. ~~The choice of the most appropriate approach to measuring current operational value depends on the availability of data and the nature of the impairment: [Deleted]~~
- ~~(a) Impairments identified from significant long-term changes in the technological, legal, or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate; [Deleted]~~
 - ~~(b) Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand, are generally measurable using a depreciated replacement cost or a service units approach, when appropriate; and [Deleted]~~
 - ~~(c) Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach, when appropriate. [Deleted]~~

...

Reversing an Impairment Loss

...

67. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. Paragraph 77 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

- (a) A change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on or fair value less costs to sell or current operational value ~~or value in use~~);
- (b) If recoverable service amount was based on ~~value in use~~ current operational value, a change in estimate of the components of current operational value ~~value in use~~; or
- (c) If recoverable service amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.

...

Disclosure

...

77. An entity shall disclose the following for each material impairment loss recognized or reversed during the period:
- (a) ...
 - (e) Whether the recoverable service amount of the asset is its fair value less costs to sell or its ~~value in use~~ current operational value;
 - (f) ...
 - (g) If the recoverable service amount is ~~value in use~~ current operational value, the approach used to determine current operational value.

...

Effective Date

...

820. Paragraphs 14, 35, 36, 37, 38, 39, 40, 67(b), 77(e) and 77(g) are amended, paragraphs 41, 42, 44, 45, 46, 47, 48, 49 and 50 are deleted, and paragraphs 39B, 39C, 39D and 43A are added by [draft] IPSAS Part 2 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 21.

...

Updating of IPSAS 21 as a result of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)

Reasons for Updating IPSAS 21

BC29. The IPSASB decided to update IPSAS 21 because of:

- (a) The publication of IPSAS 46, *Measurement*, in 2023, in particular the adoption of current operational value as a public sector specific current value measurement basis for assets held for operational capacity and the revised definition of, and guidance on, fair value; and
- (b) Reservations expressed about the term, and description of, “value in use of a non-cash-generating asset” during the updating of Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

Scope of Limited Scope Update

BC30. Consistent with the above reasons, the scope of the update was limited to the definition, and branches, of, recoverable service amount — specifically whether current operational value should be directly or indirectly adopted as a branch of recoverable service amount and whether fair value less costs to sell should be retained as a branch of recoverable service amount. Therefore, the update did not consider other aspects of impairment including:

- (a) Indications of impairment;
- (b) Recognizing and measuring impairment losses;
- (c) Reversals of impairment losses; and
- (d) The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets.

Retention of fair value less costs to sell

BC31. The IPSASB considered whether fair value less costs to sell should be retained as a branch of recoverable service amount following changes to measurement in IPSAS 46. In the definition of ‘fair value’ in IPSAS 17, *Property, Plant and Equipment*, the predecessor of IPSAS 45, fair value could be applied to assets held for operational capacity through application of depreciated replacement cost, restoration cost, and the service units approach. Conversely, in IPSAS 46, the value premise for fair value is based on a highest and best use assumption. The definition of fair value in IPSAS 46 is therefore an exit value and from the perspective of a market participant. While the revised measurement basis is appropriate for assets held for financial capacity, it is less clear whether it is relevant for assets held for operational capacity.

BC32. The IPSASB considered that determining fair value is straightforward for non-specialized assets held for operational capacity using the market approach where necessary. The market approach

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

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 office building having twice as much capacity as now needed, fair value less costs to sell may be considerably higher than current operational value, because, unlike current operational value, fair value adopts the highest and best use principle and is determined from the perspective of a market participant.

- BC33. For specialized non-cash-generating assets, determining fair value is more difficult because 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.
- BC34. The IPSASB acknowledged reservations that the determination of fair value less costs to sell could impose unnecessary costs on preparers. In most cases it will be clear whether current operational value is higher than the carrying amount, and there will be no need to determine fair value less costs to sell.
- BC35. The IPSASB analyzed this issue by considering the example of an office building used to provide educational support services, where a change in the legislative environment had led to a decline in demand for such services. No decision has been made to dispose of the office building, so the building is not within the scope of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*. Individual floors of the building cannot be left for security reasons, so the building is treated as a single unit of account. There is an active market for such office buildings.
- BC36. Despite the fact that there is a permanent decline in demand for the services provided by the asset it is clear that, in light of the buoyant commercial property market, the non-specialized nature of the asset, and the fact that there are no legal restrictions on the use of the asset, fair value less costs to sell is higher than both carrying amount. Therefore, there is no impairment loss. A failure to determine fair value less costs to sell in circumstances such as those outlined above may lead to recognition of an impairment loss, when the reality is that there is no loss. Recognition of such a loss will have an adverse impact on the faithful representation of financial position and financial performance.
- BC37. The IPSASB therefore concluded that fair value less costs to sell should be retained as a branch of recoverable service amount.

Value in use of a non-cash-generating asset and alternatives

Introduction

- BC38. The IPSASB considered three options for the retention or replacement of value in use of a non-cash-generating asset as a branch of recoverable service amount:
- (a) Retain the 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 current operational value as a surrogate for value in use of a cash-generating asset in the determination of recoverable service amount.
 - (c) Adopt current operational value as a branch of recoverable service amount in its own right.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Approach (a): Retention of value in use of a non-cash-generating asset

- BC39. Approach (a) would retain the definitions, methods and guidance that have been in IPSASB's standards-level literature since the publication of IPSAS 21 in 2004.
- BC40. IPSASB considered that the term "present value" in the definition of "value in use of a non-cash-generating asset" implies a discounted cash flow approach. IPSAS 21 identifies and provides guidance on three approaches to determining value in use of a non-cash-generating asset — depreciated replacement cost, restoration cost and the service units approach. These approaches do not involve risk adjustments and discounting cash flows to a present value. Therefore, "value in use" is not being used in the same way as in IPSAS 26 and IAS 36.
- BC41. 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. Unlike IPSAS 17, *Property, Plant and Equipment*, and IPSAS 21, IPSAS 46 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 as a measurement basis in the recently updated Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, because of the introduction of current operational value and the similarity of replacement cost and the cost approach.
- BC42. Therefore, the IPSASB rejected an approach that does not use value in use consistently with IPSASB and IASB literature, and includes techniques that are no longer in IPSASB's literature.

Approach (b) Adopting current operational value as a surrogate for value in use

- BC43. Unlike fair value, current operational value reflects the value of an asset in its existing use rather than the asset's highest and best use. In assessing the remaining service potential of an asset, current operational value takes into account the current age, functionality, and condition of the asset, and reflects factors such as physical, functional, and economic obsolescence.
- BC44. The IPSASB considered that, because current operational value 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. Consequently, the IPSASB concluded that current operational value is appropriate for determining an impairment loss (or a reversal of an impairment loss) for a non-cash-generating asset held for its operational capacity.
- BC45. However, the IPSASB did not support Approach (b) because it would retain the definition of "value in use of a non-cash-generating asset". As for Approach (a) this is inconsistent with the definition of "value in use" in IPSAS 26 and IAS 36.

Approach (c) Adopt current operational value as a branch of recoverable service amount in its own right.

- BC46. In Approach (c) the branches of recoverable service amount are current operational value and fair value less costs to sell. Replacing value in use of a non-cash-generating asset with current operational value updates the terminology in IPSAS 21 to reflect the measurement methodology in IPSAS 46. The revised definition of recoverable service amount 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 value of the asset to the entity in operation (i.e., current operational value); or
 - (b) The amount for which the asset could be sold (i.e., fair value).

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

BC47. Where an entity has selected the current value model for subsequent measurement it will already be presenting assets held for operational capacity at current operational value in accordance with IPSAS 45. The use of current operational value as a branch of recoverable service amount will therefore have cost-benefit advantages for entities that have adopted the current value model.

Implications of adoption of current operational value for entities that have adopted the current value model for measurement subsequent to recognition

BC48. The IPSASB further considered the implications of the adoption of current operational value as a branch of recoverable service amount for entities on the current value model for measurement subsequent to recognition. In 2016, the scope of IPSAS 21 was broadened to bring property, plant and equipment and intangible assets on the revaluation model (the predecessor of the current value model in IPSAS 46) within the scope of IPSAS 21 and IPSAS 26.

BC49. Many entities that are on the current value model for measurement subsequent to recognition, will revalue assets on a rolling program over a specified period. IPSAS 45, *Property, Plant and Equipment*, requires that “revaluations are 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.” The IPSASB therefore concluded that the main implication of the adoption of current operational value as a branch of recoverable service amount is that entities on the current value model may have to bring forward revaluations where there is an indication that an asset might be impaired.

Impact of impairments due to physical damage on current operational value of an asset

BC50. The IPSASB considered the impact of physical damage on an asset that is held for its service potential and is not operable at the measurement date. The IPSASB acknowledged that if, and when, an asset is restored to its pre-impaired state, it will be able to resume the provision of services. However, following the impairment, the IPSASB is of the view that measurement of current operational value should reflect the physical condition of the asset at the measurement date. If due to its physical condition the asset is inoperable its current operational value is zero.

BC51. In some cases an asset that is incapable of delivering services will have a disposal value. In such cases recoverable service amount will be represented by fair value less costs to sell.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 21.

Measurement of Impairment Loss [Deleted]

~~Note: In the following examples, it is assumed that the fair value less costs to sell of the asset tested for impairment is less than its value in use or is not determinable, unless otherwise indicated. Therefore, the asset's recoverable service amount is equal to its value in use. In these examples, the straight-line method of depreciation is used.~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Depreciated Replacement Cost Approach [Deleted]

Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment— Underutilized Mainframe Computer [Deleted]

IE1. In 1999, the City of Kermann purchased a new mainframe computer at a cost of CU10 million.³ Kermann estimated that the useful life of the computer would be seven years, and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of excess CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet peak period deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2003 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at a price of CU500,000 that can provide the remaining service potential of the mainframe computer using the remaining applications. [Deleted]

Footnote 3: In these examples monetary amounts are denominated in "currency units" (CU).

Evaluation of Impairment [Deleted]

IE2. The indication of impairment is the significant long-term change in the technological environment resulting in conversion of applications from the mainframe to other platforms, and therefore decreased usage of the mainframe computer. (Alternatively it can be argued that a significant decline in the extent of use of the mainframe indicates impairment.) Impairment loss is determined using the depreciated replacement cost approach as follows: [Deleted]

a Acquisition cost, 1999	10,000,00
Accumulated depreciation, 2003 ($a \times 4 \div 7$)	5,714,286
b Carrying amount, 2003	4,285,714
c Replacement cost	500,000
Accumulated depreciation ($c \times 4 \div 7$)	285,714
d Recoverable Service Amount	214,286
Impairment loss (b – d)	4,071,428

Near Cessation in Demand for the Services Provided by a Non-cash Generating Asset—Underutilized Mainframe Software Application [Deleted]

IE3. In 1999, the City of Kermann purchased a software license for an application for its new mainframe computer for CU350,000. Kermann estimated that the useful life of the software would be seven years, and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software. By 2003, usage of the application had declined to 15 percent of its originally anticipated demand. A license for a software application to replace the remaining service potential of the impaired software application costs CU70,000. [Deleted]

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Evaluation of Impairment ~~[Deleted]~~

IE4. The indication of impairment is technological change, brought about by the loss of mainframe computer capacity. ~~[Deleted]~~

a Acquisition cost, 1999	350,00
Accumulated depreciation, 2003 ($a \times 4 \div 7$)	<u>200,00</u>
b Carrying amount, 2003	150,00
c Replacement cost	70,000
Accumulated amortization ($c \times 4 \div 7$)	<u>40,000</u>
d Recoverable Service Amount	30,000
Impairment loss ($b - d$)	<u><u>120,00</u></u>

Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use—School Used as Warehouse ~~[Deleted]~~

IE5. In 1997, Lunden School District constructed an elementary school at a cost of CU10 million. The estimated useful life of the school is fifty years. In 2003, the school is closed because enrollments in the district declined unexpectedly due to a population shift caused by the bankruptcy of a major employer in the area. The school is converted to use as a storage warehouse, and Lunden School District has no expectation that enrollments will increase in the future such that the building would be reopened for use as a school. The current replacement cost for a warehouse with the same storage capacity as the school is CU4.2 million. ~~[Deleted]~~

Evaluation of Impairment ~~[Deleted]~~

IE6. Impairment is indicated, because the purpose for which the building is used has changed significantly from a place for instructing students to a storage facility, and this is not anticipated to change for the foreseeable future. An impairment loss using depreciated replacement cost approach would be determined as follows: ~~[Deleted]~~

a Historical cost, 1997	10,000,000
Accumulated depreciation, 2003 ($a \times 6 \div 50$)	<u>1,200,000</u>
b Carrying amount, 2003	<u><u>8,800,000</u></u>
c Replacement cost of a storage facility of similar capacity	4,200,000
Accumulated depreciation ($c \times 6 \div 50$)	<u>504,000</u>
d Recoverable Service Amount	<u><u>3,696,000</u></u>
Impairment loss ($b - d$)	<u><u><u>5,104,000</u></u></u>

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use—School Partially Closed Due to Decline in Enrollment [Deleted]

IE7. In 1983, the Lutton School District constructed a school at the cost of CU2.5 million. The entity estimated the school would be used for 40 years. In 2003, the enrollment declined from 1000 to 200 students as the result of population shift caused by the bankruptcy of a major employer in the area. The management decided to close the top two floors of the three-story school building. Lutton School District has no expectation that enrollments will increase in the future such that the upper stories would be reopened. The current replacement cost of the one-story school is estimated at CU1.3 million. [Deleted]

Evaluation of Impairment [Deleted]

IE8. Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of a reduction in the number of students from 1000 to 200 students. The reduction in the extent of use is significant, and the enrollment is expected to remain at the reduced level for the foreseeable future. Impairment loss using a depreciated replacement cost approach would be determined as follows: [Deleted]

a	Acquisition cost, 1983	2,500,000
	Accumulated depreciation, 2003 ($a \times 20 \div 40$)	<u>1,250,000</u>
b	Carrying amount, 2003	<u>1,250,000</u>
c	Replacement cost	1,300,000
	Accumulated depreciation ($c \times 20 \div 40$)	<u>650,000</u>
d	Recoverable Service Amount	<u>650,000</u>
	Impairment loss (b – d)	<u><u>600,000</u></u>

Restoration Cost Approach [Deleted]

Physical Damage—School Bus Damaged in Road [Deleted]

IE9. In 1998, North District Primary School acquired a bus at the cost of CU200,000 to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 2003, the bus sustained damage in a road accident, requiring CU40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is CU250,000 in 2003. [Deleted]

Evaluation of Impairment [Deleted]

IE10. Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using the restoration cost approach would be determined as follows: [Deleted]

a	Acquisition cost, 1998	200,000
	Accumulated depreciation, 2003 ($a \times 5 \div 10$)	<u>100,000</u>
b	Carrying amount, 2003	<u><u>100,000</u></u>

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

c Replacement cost	250,000
Accumulated depreciation ($c \times 5 \div 10$)	125,000
d Depreciated replacement cost (undamaged state)	125,000
Less: restoration cost	40,000
e Recoverable Service Amount	85,000
Impairment loss (b – e)	15,000

Physical Damage—Building damaged by fire [Deleted]

IE11. In 1984, the City of Moorland built an office building at a cost of CU50 million. The building was expected to provide service for 40 years. In 2003, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed, and structural repairs costing CU35.5 million are to be made to restore the office building to an occupiable condition. The replacement cost of a new office building is CU100 million. [Deleted]

Evaluation of Impairment [Deleted]

IE12. Impairment is indicated because the office building has sustained physical damage due to the fire. Impairment loss using a restoration cost approach would be determined as follows: [Deleted]

a Acquisition cost, 1984	50,000,00
	0
Accumulated depreciation, 2003 ($a \times 19 \div 40$)	23,750,00
	0
b Carrying amount, 2003	26,250,00
	0
c Replacement cost (of a new building)	100,000,0
	00
d Accumulated depreciation ($c \times 19 \div 40$)	47,500,00
	0
Depreciated replacement cost (undamaged)	52,500,00
	0
Less: restoration cost	35,500,00
	0
e Recoverable Service Amount	17,000,00
	0
Impairment loss (b – e)	9,250,000

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Service Units Approach [Deleted]

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use—High-rise Building Partially Unoccupied for the Foreseeable Future [Deleted]

IE13. In 1988, Ormong City Council constructed a 20-story office building for use by the Council in downtown Ormong at the cost of CU80 million. The building was expected to have a useful life of 40 years. In 2003, National Safety Regulations required that the top four stories of high-rise buildings should be left unoccupied for the foreseeable future. The building has a fair value less costs to sell of CU45 million in 2003 after regulations came into force. The current replacement cost of a similar 20-story building is CU85 million. [Deleted]

Evaluation of Impairment [Deleted]

IE14. Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new National Safety Regulations. The reduction in the extent of use is significant, and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows: [Deleted]

a	Acquisition cost, 1988	80,000,00
		0
	Accumulated depreciation, 2003 ($a \times 15 \div 40$)	30,000,00
		0
		50,000,00
b	Carrying amount, 2003	0
		=====
c	Replacement cost (20-story building)	85,000,00
		0
	Accumulated depreciation ($c \times 15 \div 40$)	31,875,00
		0
d	Depreciated replacement cost before adjustment for remaining service units	53,125,00
		0
		=====
e	Value in Use of the building after the regulation came into force ($d \times 16 \div 20$)	42,500,00
		0
		=====
f	Fair value less costs to sell of the building after regulation came into force	45,000,00
		0
		=====
g	Recoverable service amount (higher of e and f)	45,000,00
		0
		=====
	Impairment loss ($b - g$)	5,000,000
		=====

Evidence from Internal Reporting—Higher Cost of Operating the Printing Machine [Deleted]

IE15. In 1998, Country X Education Department purchased a new printing machine at a cost of CU40 million. The Department estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 2003, it was reported

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

~~that an automated feature of the machine's function does not operate as expected, resulting in a 25 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is CU45 million in 2003. [Deleted]~~

Evaluation of Impairment [Deleted]

IE16. ~~Impairment is indicated by evidence from internal reporting that the service performance of the printing machine is worse than expected. Circumstances suggest that the decline in the service potential of the asset is significant and of a long term nature. Impairment loss using a service units approach is determined as follows: [Deleted]~~

a Acquisition cost, 1998	40,000,00
	0
Accumulated depreciation ($a \times 5 \div 10$)	20,000,00
	0
b Carrying amount, 2003	20,000,00
	0
c Replacement cost	45,000,00
	0
Accumulated depreciation ($c \times 5 \div 10$)	22,500,00
	0
d Depreciated replacement cost before adjustment for remaining service units	22,500,00
	0
e Recoverable Service Amount ($d \times 75\%$)	16,875,00
	0
Impairment loss ($b - e$)	3,125,000

Measurement of Impairment Losses

Introduction

IE17. The following examples illustrate the measurement of impairment losses following identification of the indications of impairment in paragraph 27. The examples include entities on both the historical cost model and the current value model for measurement subsequent to recognition. Table One identifies the indication of impairment and the subsequent measurement model for which the example is provided. The indications of impairment apply to both models.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Table One: Indications of Impairment and Measurement Model to which Illustrative Examples relate

	<u>Indication of Impairment</u>	<u>Model Subsequent to Measurement at Initial Recognition</u>	
		<u>Historical Cost Model</u>	<u>Current Value Model</u>
<u>Internal Indications of Impairment</u>	(a) <u>Cessation, or near cessation, of the demand or need for services provided by the asset</u>	x	
	(b) <u>Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates</u>		x ²
<u>External Indications of Impairment</u>	(c) <u>Evidence is available of physical damage to asset</u>	x	
	(d) <u>Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used.</u>	x	
	(e) <u>A decision to halt the construction of the asset before it is complete or in a usable condition</u>	x	
	(f) <u>Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected</u>		x

² Impairment indication (b) includes two examples. In one of these examples current operational value is the relevant metric for the determination of recoverable service amount. In the other example fair value less costs to sell is the relevant metric.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Assumptions

IE18. In these examples, the straight-line method of depreciation is applied. For simplicity there is no change to useful lives.

Indication of Impairment (a): Cessation, or near cessation, of the demand or need for services provided by the asset—Major reduction in demand for services following closure of general hospital.

Fact Pattern

IE19. Swansway Health Authority (HA) operates an incinerator for medical waste for medical facilities in its geographical area. The incinerator was constructed in 2017 at a cost of 600,000CU, with an estimated useful life of 30 years. The main general hospital accounts for 95% of the waste processed by the incinerator.

IE20. In 2023 there is a national reorganization of secondary healthcare. This reorganization involves the closure of the general hospital, apart from accident and emergency services, and the centralization of general surgery and medical specialties in the new general hospital of neighboring Goosedown HA. Following this reorganization, there is a near complete cessation of demand for the incinerator. Swansway HA does not think that there is any prospect of demand returning to previous levels, as there are no alternative users of the incinerator.

IE21. Swansway HA has adopted the historical cost model for measurement subsequent to recognition.

Analysis

IE22. It is estimated that a smaller incinerator providing 5%-10% of the current capacity can be acquired for 400,000 CU including necessary site-specific adaptations. There is a very limited market for incinerators of the type operated by Swanshire HA and current operational value, using the cost approach, is therefore the determinant of recoverable service amount. There is no need to estimate fair value less costs to sell.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

	<u>CU000</u>
a. Construction cost, 2017	600
Accumulated depreciation	<u>120</u>
(a × 6 ÷ 30)	
b. Carrying amount, 2023	<u>480</u>
c. Revised Gross Operational Value (cost approach)	400
Accumulated depreciation	<u>80</u>
(c × 6 ÷ 30)	
d. Current operational value	<u>320</u>
e. Impairment loss (b-d)	160
IE23. <u>The carrying amount of the incinerator is reduced to 320,000 CU. The impairment loss of 160,000 CU is taken to surplus/deficit.</u>	

Indication of impairment (b) Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates—Reduction in demand for services following legislative change

Fact Pattern

- IE24. In 2004 Mullhall School District (SD) acquired an office building with four floors in a central city location in which to house educational support services for 700,000 CU. The building had an estimated useful life of 40 years. In 2020 there was a legislative change and schools were permitted more budget flexibility and greater discretion over the procurement of these services. Many sought alternative provision leading to a decline in demand for services provided by Mulhall School District.
- IE25. By 2023 demand for education support services had declined by about 75% from the 2020 level. Mullhall SD does not foresee demand returning to previous levels. Mulhall SD estimates that the services can be provided in a building with about 25% of the floor area of the current building. Mulhall SD has looked into the possibility of leasing three floors of the building, but decides that because the building needs to be secure for students and their families, this is not feasible. Mulhall SD therefore treats the building as a single unit of account.
- IE26. Mullhall SD has adopted the current value model for measurement subsequent to recognition. Mullhall SD has a rolling program of revaluations. The next revaluation of the building is scheduled for 2025. Because of the indication of impairment, the revaluation is brought forward to 2023.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Analysis

IE27. Because the office building is non-cash-generating and held for operational capacity it is measured at current operational value. No decision has been made to sell the building, so it is not in scope of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*. The carrying amount is 500,000 CU.

IE28. There are no restrictions on the building's use. There is a buoyant market for commercial property with average sale prices having increased by 25% in the 2020-2023 period. Mulhall SD therefore considers that fair value less costs to sell is the relevant metric for determining whether there is an impairment loss.

	CU000
a. Acquisition Cost in 2004	<u>700</u>
b. Current Operational Value in 2023 prior to impairment indication	1,000
Accumulated Depreciation (20/40 * 1,000)	<u>500</u>
c. Carrying Amount in 2023	<u>500</u>
d. Fair Value less Costs to Sell in 2023	2,000
Accumulated Depreciation (20/40 * 2,000)	<u>1,000</u>
e. Recoverable Service Amount	1,000
f. Impairment Loss (e>c)	0

IE29. There is no impairment loss because recoverable service amount exceeds carrying amount. Although the asset's service potential has diminished, the resources embodied in the asset can be recovered through sale in an orderly market, which is legally permitted and feasible. Therefore, Mulhall SD continues to carry the building on its statement of financial position at 500,000 CU. There is no need to redetermine current operational value.

Indication of Impairment (b): Significant long-term changes with adverse effect on the entity have taken place during the reporting period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates—Occupancy changes to residential home for children due to regulatory change

Fact Pattern

IE30. Blackwood City Council (CC) acquired a residential home for children in 2003 at a cost of 1 million CU. The residential home had an estimated useful life of 50 years. Until 2023 the home had a capacity of 100 children. In 2023 revised Government regulations imposed restrictions on occupancy. As a result, the capacity was reduced to 50 children. Covenants restrict the usage of the building to the provision of social services.

IE31. Under Blackwood CC's rolling program of valuations for assets on the current value model, the next valuation of the residential home is scheduled for 2026. Because of the indication of impairment, the valuation is brought forward to 2023. A valuer's report indicates that Blackwood

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

CC could acquire a residential building of similar age and location for 50 children for 1.5 million CU. Adaptations in order to meet regulatory requirements will cost a further 500,000 CU making a total cost of 2 million CU.

Analysis

- IE32. Blackwood CC determines that, because of the covenants restricting usage of the building and the site, current operational value using the cost approach is the relevant measurement basis for determining recoverable service amount. Therefore, there is no need to determine fair value less costs to sell.

	<u>CU000</u>
a. Acquisition Cost in 2003	1,000
b. Gross Operational Value in 2023 prior to impairment indication	3,000
Accumulated Depreciation (20/50 * 3,000)	<u>1,200</u>
c. Carrying Amount (Current Operational Value) in 2023	<u>1,800</u>
d. Revised Gross Operational Value following impairment indication	2,000
Revised Accumulated Depreciation (20/50 * 2,000,000)	<u>800</u>
e. Recoverable Service Amount (Current Operational Value)	<u>1,200</u>
f. Impairment Loss c-e	600

- IE33. The carrying amount of the residential home in the statement of financial position is reduced to 1.2 million CU. There is an impairment loss of 600,000 CU. Part of this impairment loss is debited to the revaluation reserve up to the level of previous revaluation gains. The remainder is debited to surplus/deficit.

Indication of impairment (c): Physical Damage—Bridge Damaged as a Result of Ship Colliding with Fabric of Infrastructure

Fact Pattern

- IE34. In 1999 Creech City Council constructed a road bridge spanning the Grand River. 80% of the construction cost of 20 million CU was financed by grants from the state and national governments. The bridge had an estimated useful life of fifty years. Creech City Council has adopted the historical cost model for measurement subsequent to recognition.
- IE35. In 2023 the bridge was closed due to structural damage after a ship collided with one of the supporting pillars. At the reporting date no vehicles can use the bridge. Although Creech City Council has publicly stated that it intends to repair the bridge and make it fully operational, at the reporting date there is no firm date for a reopening.
- IE36. Responsibility for funding the remedial work is unclear. Creech City Council has neither the resources to finance the work, nor the legal powers to borrow the required resources. It is unclear whether there will be any insurance recovery. Both state and national governments have indicated

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

that they will finance part of the cost, but there is no binding agreement in place at the reporting date.

Analysis

IE37. The bridge is not in operation at the measurement date and is therefore not providing service potential. It is not possible to sell the bridge so fair value less costs to sell is not relevant. Its current operational value and recoverable service amount is therefore zero. The impairment loss may be fully or partially reversed in a subsequent measurement period if Creech City Council is able to restore the entity to a condition where it can be reopened. However, currently this is management intent. The effect of such an event should be recognized in the reporting period when the restoration work takes place.

	<u>CU000</u>
a. Construction cost, 1999	20,000
Accumulated depreciation, 2023 ($a \times 25 \div 50$)	<u>10,000</u>
b. Carrying amount, 2023	<u>10,000</u>
c. Recoverable Service Amount: Current Operational Value (cost approach)	0
d. Impairment loss (b-c)	10,000

Indication of impairment (d): Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used—School Used as Warehouse

Fact Pattern

IE38. In 2017 Lunden School District (SD) constructed an elementary school at a cost of 1 million CU. The estimated useful life of the school building was fifty years. In 2023, the school closed because enrolments in the district declined unexpectedly due to a population decrease caused by the bankruptcy of the major employer in the area. Following closure, the school was converted for use as a storage warehouse. Lunden SD has adopted the historical cost model for measurement subsequent to recognition.

Analysis

IE39. Lunden SD does not expect enrolments to increase in the future and therefore does not anticipate the building reopening as a school. The estimated replacement cost of a warehouse with the same storage capacity as the school using the cost approach is 300,000 CU. The warehouse has the same useful life as the school.

	<u>CU000</u>
(a) Acquisition cost, 2017	1,000

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Accumulated depreciation, 2023 ($a \times 6 \div 50$)	<u>120</u>
(b) Carrying amount, 2023	<u>880</u>
(c) Cost of a storage facility of same capacity as school	300
Accumulated depreciation ($c \times 6 \div 50$)	<u>36</u>
(d) Recoverable Service Amount (Current Operational Value)	<u>264</u>
(e) Impairment loss (b - d)	<u>616</u>

IE40. There is an impairment loss of 616,000CU. This is taken to surplus/deficit. The carrying amount of the building is reduced to 264,000CU.

Indication of Impairment (e): A decision to halt the construction of the asset before it is complete or in a usable condition—Halt to transport improvements

Fact Pattern

- IE41. The Department of Transport (DoT) of Highside State Government operates the mass transit system for Metroland City, which includes an overground commuter railway and a subway network. Altgate has two separate and unconnected stations for the overground railway and the subway. The two stations are not linked and have separate entrances 500 meters apart.
- IE42. As the first phase of a broader longer-term program to integrate public transport in 2022, the DoT initiates a capital project to integrate the two stations so that passengers can transfer seamlessly between overground and subway networks. The project includes a new concourse area, escalators between the two levels, and a new air-conditioning system. The construction work in this phase is planned to take five years.
- IE43. Highside State Government has adopted the historical cost model for measurement subsequent to recognition. As at 2023, assets of 1,000,000 CU had been recognized. In 2023 due to a sudden and severe financial crisis the program has to be terminated. At the reporting date there is no intention of the program resuming.

Analysis

- IE44. As there is no intention to resume the construction works it is inappropriate to treat the program as deferred and to reclassify the assets as work in progress. The 1,000,000 CU assets are written off to surplus/deficit.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Impairment Indicator (f): Evidence from Internal Reporting — Service performance of an asset is, or is expected to be, significantly worse than expected.

Fact Pattern

- IE45. In 2019, Readam Education Department (ED) purchased a new printing machine at a cost of CU40,000 in order to produce books for use by elementary school pupils. Readam ED has adopted the current value model for measurement subsequent to recognition. The carrying amount of the printer in 2023 is 24,000CU.
- IE46. At the time of purchase, Readam ED estimated that 40,000 copies of books would be printed annually over the estimated 10-year useful life of the machine. In 2023, following an internal review, it was reported that an automated feature of the machine does not operate as expected, resulting in a projected 25 percent reduction in the machine's annual output level over the remaining five years of the useful life of the asset (30,000 copies annually). Repairing the printer is not feasible, because the parts are no longer available.

Analysis

- IE47. Recoverable service amount is estimated by reference to the cost of a printer with the same output as the impaired asset (30,000 annual copies), rather than the replacement cost of the original asset (40,000 annual copies). Readam ED obtains quotes for a printer with an output of 30,000 annual copies. The cheapest quote for a printer that does not require adaptation is 30,000 CU.

	<u>CU</u>
a. Acquisition Cost in 2018	40,000
b. Current Operational Value in 2023 prior to impairment indication	48,000
Accumulated Depreciation (20/40 * 48,000)	<u>24,000</u>
c. Carrying Amount in 2023	<u>24,000</u>
d. Cost of Printer with Output of 30,000 copies a year	30,000
Accumulated Depreciation (20/40 * 30,000)	<u>15,000</u>
e. Recoverable Service Amount	15,000
f. Impairment Loss (c-e)	9.000

- IE48. The carrying amount of the printer is reduced to 15,000CU. There is an impairment loss of 9,000CU. This is taken to surplus/deficit.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

AMENDMENTS: PART 3 – DEFINITION OF ACCOUNTING ESTIMATES (IAS 8)

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 7, 37, 39, 43, and 53 are amended. Paragraphs 37A, 37B, 39A, 59H and IG18-IG21 are added. Paragraphs IG14-IG17 are deleted. New headings are inserted before paragraphs 39, 41, and IG18 and new subheadings are inserted before paragraphs IG18 and IG20. New text is underlined and deleted text is struck through.

...

Definitions

7 The following terms are used in this Standard with the meanings specified:

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

~~A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.~~

...

Changes in Accounting Estimates

37 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Developing accounting estimates involves the use of judgments or assumptions. Estimation involves judgments based on the latest available, reliable information. Examples of accounting estimates include: For example, estimates may be required of:

- (a) Tax revenue due to government;
- (b) A loss allowance for expected credit losses, applying IPSAS 41, *Financial Instruments*~~Bad debts arising from uncollected taxes;~~
- (c) The net realizable value or current operational value of an item of inventory, applying IPSAS 12, *Inventories* and IPSAS 46., *Measurement* respectively~~Inventory obsolescence;~~
- (d) The fair value of an asset or liability, applying IPSAS 46~~financial assets or financial liabilities;~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

(e) The depreciation expense for an item of property, plant and equipment, applying IPSAS 45, *Property, Plant, and Equipment* The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage completion of road construction; and

(f) A provision for ~~W~~warranty obligations, applying IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

37A. An entity uses estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying IPSAS 41). measurement techniques (for example, techniques used to measure the fair value of an asset or liability applying IPSAS 46) and inputs to develop an accounting estimate.

37B. The term 'estimate' in IPSASs sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

...

Changes in Accounting Estimates

39. An entity may need to change an accounting estimate ~~may need revision~~ if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting ~~the revision of an~~ estimate does not relate to prior periods and is not the correction of an error.

39A. The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

Applying changes in accounting estimates

...

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of ~~that the change in estimate~~. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in a loss allowance for expected credit losses ~~the estimate of the amount of bad debts~~ affects only the current period's surplus or deficit, and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Errors

...

Limitations of Retrospective Restatement

...

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing ~~revision~~ as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

...

Effective Date

...

- 59H Paragraphs 7, 37, 39, 43, and 53 are amended, paragraphs 37A, 37B, and 39A are added by Part 3 of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3.

...

Revision of IPSAS 3 as a result of Part 3 of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

- BC20. The IPSASB reviewed the revisions to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* included in *Definition of Accounting Estimates* (Amendments to IAS 8) issued by the IASB in February 2021, the IASB's rationale for making these amendments as set out in their Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.
- BC21. The IPSASB noted an inconsistency in terminology between the IASB and the IPSAS literature, specifically with the term 'measurement techniques'. The IPSASB decided to align the terminology in the IPSAS 3 improvement with IPSAS 46, *Measurement*, thus 'valuation techniques' in IAS 8 was replaced with 'measurement techniques' as used in IPSAS 46, and the umbrella term 'measurement techniques' in IAS 8 is not required in the improvements to IPSAS 3.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Implementation Guidance

This Implementation Guidance accompanies, but is not part of, IPSAS 3.

...

Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable ~~[Deleted]~~

- IG14. ~~During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model. ~~[Deleted]~~~~
- IG15. ~~In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed. ~~[Deleted]~~~~
- IG16. ~~Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2. ~~[Deleted]~~~~
- IG17. ~~Additional information: ~~[Deleted]~~~~

CU

Property, plant and equipment

Cost	25,000
------	--------

Depreciation	(14,000)
--------------	----------

Net book value	11,000
----------------	--------

Prospective depreciation expense for 20X2 (old basis)	1,500
---	-------

~~Some results of the engineering survey~~

Valuation	17,000
-----------	--------

Estimated residual value	3,000
--------------------------	-------

Average remaining assets life (years)	7
---------------------------------------	---

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Depreciation expense on existing property, plant and equipment for 20X2 (new basis) 2,000

Extracts from Notes to the Financial Statements

~~From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.~~

Applying the definition of accounting estimates—Fair value of an investment property

Fact pattern

- IG18. Entity A owns an investment property that it accounts for by applying the current value model in IPSAS 16, *Investment Property*. Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a measurement technique consistent with the income approach described in IPSAS 46, *Measurement*.
- IG19. However, because of changes in market conditions since the previous reporting period, Entity A changes the measurement technique it uses to a measurement technique consistent with the market approach described in IPSAS 46. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting period and, therefore, that IPSAS 46 permits such a change. Entity A has also concluded that the change in the measurement technique is not a correction of a prior period error.

Applying the definition of accounting estimates

IG20. The fair value of the investment property is an accounting estimate because:

- (a) The fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a hypothetical sale or purchase transaction between market participants—accordingly, it cannot be observed directly and must instead be estimated.
- (b) The fair value of the investment property is an output of a measurement technique used in applying the accounting policy (current value model).
- (c) In developing its estimate of the fair value of the investment property, Entity A uses judgements and assumptions, for example, in:

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

- (i) selecting the measurement technique that is appropriate in the circumstances; and
- (ii) applying the measurement technique—developing the inputs that market participants would use in applying the measurement technique, such as information generated by market transactions involving comparable assets.

IG21 In this fact pattern, the change in the measurement technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value in the current value model—has not changed.

DRAFT

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraphs 120(p)(ii), 124(b)(iii), and AG91 are amended. Paragraph 126I is added. Subheading above paragraph AG94 is amended. New text is underlined and deleted_text is struck through.

...

Disclosures

...

120. To meet the objective in paragraph 119, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

...

- (p) For each acquisition in which the acquirer holds less than 100 percent of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:

...

- (ii) For each non-controlling interest in an acquired operation measured at fair value, the measurement ~~valuation~~ technique(s) and significant inputs used to measure that value.

...

124. To meet the objective in paragraph 123, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

...

- (b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

...

- (iii) The measurement ~~valuation~~ techniques and key model inputs used to measure contingent consideration.

...

Effective Date and Transition

Effective Date

...

- 126I. Paragraphs 120(p)(ii), 124(b)(iii), and AG91 are amended, and the subheading above paragraph AG94 is amended by Part 3 of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 40.

...

Accounting for Acquisitions

Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)

...

Non-Controlling Interest in an Acquired Operation

...

AG91. This Standard allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other measurement valuation techniques.

...

Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using Measurement Valuation Techniques (see paragraph 87)

AG94. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value of the consideration transferred to measure goodwill, a loss or a gain on a bargain purchase (see paragraphs 85–87).

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 40

...

Revision of IPSAS 40 as a result of Part 3 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

- BC96. The IPSASB replaced the term 'valuation techniques' with the term 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

DRAFT

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs AG124, AG130, AG135 and AG136 are amended. Paragraph 156I is added. New text is underlined and deleted text is struck through.

...

Effective Date

- 156I. Paragraphs AG124, AG130, AG135, and AG136 are amended by Part 3 (draft) ED [XX]. Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 41.

...

Initial Measurement

Concessionary Loans

...

- AG124 An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS28 and paragraphs AG152-AG153 of IPSAS 47. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in paragraphs AG144-AG155. Where an entity cannot determine fair value by reference to an active market, it uses a measurement valuation technique. Fair value using a measurement valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see paragraph AG115)

...

Equity Instruments Arising from Non-Exchange Transactions

...

- AG130. To the extent an equity instrument arises from the transaction, or component of the transaction, that is within the scope of this Standard, it is to be recognized initially at fair value in accordance with Paragraph 57. The equity instrument is to be measured subsequently in accordance with paragraphs 61-63. If the instrument does not have an active market, the entity shall consider measurement valuation techniques and inputs in paragraphs AG149-AG155) in determining its fair value.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

...

Valuing Financial Guarantees Issued through a Non-Exchange Transaction

...

AG135. Where there is no active market for a directly equivalent guarantee contract; the entity considers whether a measurement ~~valuation~~ technique other than observation of an active market is available and provides a reliable measure of fair value. Such a measurement ~~valuation~~ technique may rely on mathematical models which consider financial risk. For example, National Government W guarantees a bond issue of Municipality X. As Municipality X has a government guarantee backing its bond issue, its bonds have a lower coupon than if they were not secured by a government guarantee. This is because the guarantee lowers the risk profile of the bonds for investors. The guarantee fee could be determined by using the credit spread between what the coupon rate would have been had the issue not been backed by a government guarantee and the rate with the guarantee in place. Where a fair value is obtainable either by observation of an active market or through another measurement ~~valuation~~ technique, the entity recognizes the financial guarantee at that fair value in the statement of financial position and recognizes an expense of an equivalent amount in the statement of financial performance. When using a measurement ~~valuation~~ technique that is not based on observation of an active market an entity needs to satisfy itself that the output of any model is reliable and understandable.

AG136. If no reliable measure of fair value can be determined, either by direct observation of an active market or through another measurement ~~valuation~~ technique, an entity is required to measure the financial guarantee contract at the amount of the loss allowance determined in accordance with paragraphs 73 to 93.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41

...

Revision of IPSAS 41 as a result of Part 3 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

BC53. The IPSASB replaced the term 'valuation techniques' with the term 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Implementation Guidance

This Implementation Guidance accompanies, but is not part of, IPSAS 41.

...

Fair Value (paragraphs 31–34)

...

- IG15. IPSAS30 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a measurement valuation technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with Paragraph 33(b). (Disclosure of comparative information is also required, but is not included in the following example)

DRAFT

Amendments to IPSAS 45, *Property Plant, and Equipment*

Paragraphs 79(a) and 81(d) are amended. Paragraph 87E is added. New text is underlined and deleted text is struck through.

...

Disclosure

...

Current Value Measurement

79. An entity shall disclose information that helps users of its financial statements assess both of the following:

- (a) For property, plant, and equipment that are measured at current operational value or fair value in the statement of financial position after initial recognition, the measurement valuation techniques and inputs used to develop those measurements.

...

81. To meet the objectives in paragraph 79, an entity shall disclose, at a minimum, the following information for each class of property, plant, and equipment (see paragraph 82 for information on determining appropriate classes of property, plant, and equipment for current value measurement disclosures) measured at current operational value or fair value in the statement of financial position after initial recognition:

- (d) For current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a cost approach to a market approach or the use of an additional measurement valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using significant unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Effective Date and Transition

Effective Date

...

- 87E. Paragraphs 79(a) and 81(d) are amended by Part 3 of (draft) ED [XX], *Application of IPSAs 46, Measurement* (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45

...

Revision of IPSAS 45 as a result of Part 3 of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

- BC91. The IPSASB replaced the term 'valuation techniques' with the term 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 46, *Measurement*

Paragraphs B13 is amended. Paragraph 56B is added. New text is underlined and deleted text is struck through.

...

Effective Date and Transition

Effective Date

...

- 56B. Paragraph B13 is amended by Part 3 of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Appendix B

Current Operational Value

This Appendix is an integral part of IPSAS 46

...

Measurement

...

The Amount the Entity would Pay

...

Observable Inputs

...

- B13. When a price for an identical, or similar, asset is not observable, an entity measures current operational value using another measurement ~~valuation~~ technique that uses observable inputs, where feasible, such as when external resources are available and can be used

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 46

...

Revision of IPSAS 46 as a result of Part 3 of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)* issued in [Month and Year]

BC104. The IPSASB replaced the term ‘valuation techniques’ with the term ‘measurement techniques’ for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

...

DRAFT

AMENDMENTS: PART 4 – IMPROVEMENTS TO CURRENT VALUE MEASUREMENT DISCLOSURES

Amendments to IPSAS 16, *Investment Property*

Paragraphs 89A, and 89C(a)-89C(g) are amended. Paragraph 101N is added. New text is underlined and deleted text is struck through.

...

Disclosure

...

Current Value Measurement

89A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For investment properties that are measured at fair value ~~on a recurring or non-recurring basis~~ in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For ~~recurring~~ fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

...

89C. To meet the objectives in paragraph 89A, an entity shall disclose, at a minimum, the following information for each class of investment property (see paragraph 89D for information on determining appropriate classes of investment property) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, Measurement) in the statement of financial position after initial recognition:

- (a) ~~For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position in particular circumstances;~~
- (b) ~~For recurring and non-recurring fair value measurements, whether the fair value measurements are estimated using observable or unobservable inputs. For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);~~
- (c) ~~For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (d) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) ...
- (e) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investment properties held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For ~~recurring and non-recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy:

...

Effective Date

- 101N. Paragraphs 89A, and 89C(a)-89C(g) are amended by Part 4 of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 16.

...

Revision of IPSAS 16 as a result of Part 4 of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)* issued in [Month and Year]

- BC13. The IPSASB decided to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

...

DRAFT

Amendments to IPSAS 27, *Agriculture*

Paragraphs 46A, and 46C(a)-46C(g) are amended. Paragraph 56L is added. New text is underlined and deleted text is struck through.

...

Disclosure

...

General

...

Current Value Measurement

46A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For agricultural assets that are measured at fair value ~~on a recurring or non-recurring basis~~ in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For ~~recurring~~ fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period**

...

46C. To meet the objectives in paragraph 46A, an entity shall disclose, at a minimum, the following information for each class of agricultural assets (see paragraph 46D for information on determining appropriate classes of agricultural assets) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, Measurement) in the statement of financial position after initial recognition:

- (a) ~~For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position in particular circumstances;~~
- (b) ~~For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);~~
- (c) ~~For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (d) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) ...
- (e) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those agricultural assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For ~~recurring and non-recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy:

...

Effective Date

- 56L. Paragraphs 46A, and 46C(a)-46C(g) are amended by Part of (draft) ED [XX], *Application of IPSAS 46, Measurement* (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

...

Revision of IPSAS 27 as a result of part 4 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

BC19. The IPSASB decided to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

...

DRAFT

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 30, *Financial instruments: Disclosures*

Paragraphs 30A, and 30C(a)-30C(h) are amended. Paragraph 52O is added. New text is underlined and deleted text is struck through.

...

Other Disclosures

...

Fair Value

30A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For financial instruments that are measured at fair value ~~on a recurring or non-recurring basis~~ in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For ~~recurring~~ fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

...

30C. To meet the objectives in paragraph 30A, an entity shall disclose, at a minimum, the following information for each class of financial instruments (see paragraph 30D for information on determining appropriate classes of financial instruments) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, Measurement) in the statement of financial position after initial recognition:

- (a) ~~For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position in particular circumstances;~~
- (b) ~~For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);~~
- (c) ~~For financial instruments held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;~~
- (d) ~~For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (e) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) ...
 - (iv) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those financial instruments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (g) For ~~recurring and non-recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (h) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy:

...

Effective Date and Transition

Effective Date

...

520. **Paragraphs 30A, and 30C(a)-30C(h) are amended by Part 4 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual**

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 30.

...

Revision of IPSAS 30 as a result of part 4 of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)* issued in [Month and Year]

BC14. The IPSASB decided to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

...

Amendments to IPSAS 34, *Separate Financial Statements*

Paragraphs 23A, and 23C(a)-23C(h) are amended. Paragraph 32F is added. New text is underlined and deleted text is struck through.

...

Disclosure

...

Current Value Measurement

23A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For investments that are measured at fair value ~~on a recurring or non-recurring basis~~ in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For ~~recurring~~ fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

23C. To meet the objectives in paragraph 23A, an entity shall disclose, at a minimum, the following information for each class of investments (see paragraph 23D for information on determining appropriate classes of investments) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, Measurement) in the statement of financial position after initial recognition:

- (a) ~~For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of investments are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of investments are those that this Standard requires or permits in the statement of financial position in particular circumstances;~~
- (b) ~~For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);~~
- (c) ~~For investments held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;~~
- (d) ~~For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (e) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) ...
 - (iv) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (g) For ~~recurring and non-recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (h) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy:

...

Effective Date

...

- 32F. **Paragraphs 23A, and 23C(a)-23C(h) are amended by Part 4 of (draft) ED [XX], *Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46)*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 34.

...

Revision of IPSAS 34 as a result of Part 4 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

BC11. The IPSASB decided to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

...

DRAFT

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

Amendments to IPSAS 38, *Disclosure of Interest in Other Entities*

Paragraphs 57A, and 57C(a)-57Cg) are amended. Paragraph 61F is added. New text is underlined and deleted text is struck through.

...

Current Value Measurement

57A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For interests in other entities that are measured at fair value ~~on a recurring or non-recurring basis~~ in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For ~~recurring~~ fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

57C. To meet the objectives in paragraph 57A, an entity shall disclose, at a minimum, the following information for each class of interests in other entities (see paragraph 57D for information on determining appropriate classes of interests in other entities) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, Measurement) in the statement of financial position after initial recognition:

- (a) ~~For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of interests in other entities are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of interests in other entities are those that this Standard requires or permits in the statement of financial position in particular circumstances;~~
- (b) ~~For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);~~
- (c) ~~For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity~~

EXPOSURE DRAFT [XX], APPLICATION OF IPSAS 46, MEASUREMENT (AMENDMENTS TO IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, AND IPSAS 46)

cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (d) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) ...
- (e) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those interests in other entities held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For ~~recurring and non-recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy:

...

Effective Date

...

- 61F. Paragraphs 57A, and 57C(a)-57C(g) are amended by Part 4 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendment to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46), issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 38.

...

Revision of IPSAS 38 as a result of Part 4 of (draft) ED [XX], Application of IPSAS 46, Measurement (Amendments to IPSAS 3, IPSAS 12, IPSAS 21, IPSAS 31, and IPSAS 46) issued in [Month and Year]

- BC15. The IPSASB decided to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

...

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, Recommended Practice Guidelines, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Public Sector Accounting Standards Board', 'International Public Sector Accounting Standards', 'Recommended Practice Guidelines', 'International Federation of Accountants', 'IPSASB', 'IPSAS', 'RPG', 'IFAC', the IPSASB logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © Month 2024 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "Copyright © [Month] 2024 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."

Published by:



DRAFT