IPSASB International Public Sector Accounting Standards Board®

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Meeting: International Public Sector Accounting Standards Board

Meeting Date: March 10–13, 2026

Agenda Item 8

MEASUREMENT – APPLICATION PHASE: COV IN IPSAS 31 – NARROW SCOPE AMENDMENTS

Project summary	The project objective is to evaluate the applicability of the current operational value in IPSAS 31, *Intangible Assets*.	
Meeting objective	Discuss the population of intangible assets in the public sector and the practical applicability of COV.	
Project staff lead[s]	• Agustina Llambi, Principal	
Task Force members	N/A	
	Topic	***Agenda Item***
Essential Documents (Required Reading)	Practical Applicability of COV to Intangible Assets (IPSAS 31)	8.A.1
	Additional Guidance for the Practical Application of COV in IPSAS 31	8.A.2
Supporting Documents (Posted Separately on Meeting Page)	Measurement – Application Phase: COV in IPSAS 31 Dashboard	8.B.1
	Commonly Recognized Intangible Assets	8.B.2
	Discussions with IASB	8.B.3
Background Information (Available on the project webpage)	Decisions and Instructions from the previous IPSASB Meeting	
	Due Process Checklist	
	Project Timeline	

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Practical Applicability of COV to Intangible Assets (IPSAS 31)

Question

1. Does the IPSASB agree that the current operational value (COV) can be applied practically to the measurement of intangible assets?

Recommendation

2. Staff recommend the IPSASB agree that COV is practically applicable for the measurement of intangible assets held for its operational capacity.

Context

3. In December 2025, the IPSASB discussed the applicability of COV to intangibles and laid out a 4-step thought process that should be applied to make this conclusion:

   (a) **Step One. Are there intangibles held for operating capacity?**

   Yes. The IPSASB decided in December 2025 that public sector intangible assets exist that are held for their operational capacity.

   (b) **Step Two. Is COV conceptually applicable to the measurement of intangible assets?**

   Yes. The IPSASB decided in December 2025 that the concepts developed for COV are applicable to the measurement of intangible assets.

   (c) **Step Three. Is it practical to apply COV when measuring the value of an intangible asset?**

   The IPSASB instructed staff to identify examples of intangible assets that are commonly recognized by public sector entities and analyze the practical application of COV to those intangible assets. Addressed in this Agenda Item.

   (d) **Step Four. Does IPSAS 46, *Measurement*, provide sufficient illustrative guidance to apply the COV principles to intangible assets?**

   Examples developed in IPSAS 46 are based on tangible assets. The Board discussed whether these examples translate to the measurement of intangible assets. See Agenda Item 8.A.2.

Analysis

4. In December 2025, the IPSASB concluded COV should be applied to intangible assets in the public sector (see Steps 1 and 2 in paragraph 3 above). This analysis in this item focuses on whether COV could be practically applied to intangible assets in the public sector.

Intangible Assets Recognized in Publicly Available Financial Statements

5. Staff reviewed the financial statements of 13 jurisdictions[1] and noted the following:

   (a) Common intangible assets recognized included: licenses, patents, rights, software (acquired and internally generated), and trademarks;

   (b) Most intangible assets were carried at historical cost; and

[1] See Supporting Document 8.B.2 for a list of jurisdictions and types of intangible assets recognized.

(c) One jurisdiction[2] measures intangible assets at current value, for example, for intangible assets in use for which there is no active market, these are revalued at each reporting date using the Producer Price Index.

See Agenda Item 8.B.2 for details.

Valuation Methodologies

6. Staff reviewed internationally recognized valuation standards, specifically the International Valuation Standard Council (IVSC) and Royal Institution of Chartered Surveyors Valuation Global Standards (RICS). While the subsequent measurement framework in IPSAS 46 discusses three levels of measurement—measurement models, measurement bases, and measurement techniques, IVSC and RICS provide guidance on the valuation of intangible assets at the measurement technique[3] level.

7. Both international valuation standards provide guidance, including illustrative material, to valuation experts regarding how intangible assets can be measured using the market approach, income approach, and cost approach[4]. In addition to supporting valuations for financial reporting purposes, the guidance provides a valuation framework for measurement of intangibles beyond what is recognized in financial statements.

8. The measurement technique used depends on the information available and its relevance. Intangible assets recognized in the public sector can be measured using the following measurement techniques:

   (a) Market approach: broadcast spectrum and licenses.

   (b) Income approach: technology, trademarks, and licenses.

   (c) Cost approach: acquired third-party software, internally-developed and internally-used, and non-marketable software.

9. In discussions with select members and staff of the IVSC, data valuation in the public sector – specifically topographic information – has become a topic that is gaining prominence in the community. For example, the increasing value of rare earth minerals that exist on the seabed has increased the value of information that exists in maps of the ocean floor that are often held by public sector entities.

Application of COV to Intangible Assets

10. Using the categories of intangible assets recognized in the financial statements reviewed, staff developed fact patterns for three intangible assets based on other sources of information available

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[2] The FS disclosures state that 'Subsequent to initial recognition, intangible assets are recognised at fair value. As no active market exists for the department's intangible assets, fair value is assessed as replacement cost less any accumulated amortisation and impairment losses. Intangible assets in service are revalued at each reporting date using the Producer Price Index (PPI) produced by the [local regulator].' However, this jurisdiction changed their requirements in 2025-2026 and this is no longer the case. Staff understand the decision considered:

(a) Lack of observable market inputs to value them at existing use value as required by the Reporting Manual; and

(b) When these have relatively short useful economic lives, holding them at current value is often less relevant to users of the accounts.

[3] IVSC and RICS terminology for 'measurement techniques' is 'valuation techniques'.

[4] See Supporting Document 8.B.3 for a discussion between IPSASB staff and International Valuation Standards Council (IVSC), as well as discussions with IASB staff on the active market restriction in IAS 38 *Intangible Assets*.

outside of the financial statements. Fact patterns were developed for fishing quota, an internally generated software, and a vaccine patent: To determine whether COV could be practically applied to intangible assets, staff followed the current value measurement process based on COV principles and guidance in IPSAS 46 for each fact pattern.

11. In developing the fact patterns, the section illustrating the practical application of COV assumes relevant inputs exist, and the use of observable inputs is maximized. Where relevant data to develop an estimate does not exist, it is not possible to perform a valuation, irrespective of what measurement basis (i.e., fair value or COV) is used.

Fact Pattern 1 – Fishing Quotas

12. **Fact Pattern:** An ocean side municipality acquired a fishing quota in a non-exchange transaction from the federal government. The fishing quota gives the community the right to harvest an amount of the Total Allowable Catch (TAC) for a specific species. The municipality will use the catch to feed its local community throughout the 30 year exclusivity period. There are no restrictions on the use of the fishing quota – the quota can be sold, used, and/or allocated to individuals to fish and sell at the market.

    (a) **Fair Value Measurement (Existing Requirements):** IPSAS 31.31 requires that an intangible asset acquired in a non-exchange transaction be measured at fair value, when it can be reliably measured. IPSAS 31.74 permits an entity to measure an intangible asset at fair value subsequent to initial recognition when the asset can be measured by reference to an active market. When determining fair value, which is the price received to sell an asset, IPSAS 46.D14 requires the measurement to consider a market participant's ability to generate economic benefits by using the asset in its highest and best use, regardless of the municipality's intent to hold the asset to benefit its citizens.

    (b) **COV Measurement:** In contrast to fair value, COV measures an asset in its existing use. Because the municipality is not holding the fishing quota to generate financial returns, measuring the quota in terms of its operating capacity provides different information to the users of the financial information.

    (c) **Practical Application of COV:** IPSAS 46.B28 allows for the application of the market approach or the cost approach to estimate COV.

        (i) *Applying the **market approach** requires the existence of an active market with transactions involving identical or similar assets*[5].

            Given the case facts, staff considers it is unlikely that an active market exists for fishing quotas that are used in a way consistent with the ocean side municipality (i.e., identical asset). However, there may be an active market for similar fishing quotas, where the transaction price could be adjusted based on the specific characteristics of the quota, such as differences in TAC, species, location, license duration, and purpose for which the fishing quota is held.

[5] See paragraph B32 in IPSAS 46.

*(ii) The **cost approach** reflects the amount currently required to replace the service provided by an asset through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence.*

While a fishing quota cannot be developed, reproduced, or constructed, the price to acquire a substitute asset of comparable utility can be determined, such as a fishing quota with the specific characteristics (i.e., TAC, species, location, license duration) as those obtained in the non-exchange transaction with the government from a secondary market.

(d) **Conclusion:** Based on this fact pattern:

(i) The highest and best use of the fishing quota is different than the existing use of the quota, resulting in a measurement difference between COV and FV; and

(ii) COV can practically be applied to fishing quotas.

Fact Pattern 2 – Internally Generated Software

13. **Fact Pattern:** A lower-level court developed an IT system to schedule court cases more effectively that will result in increased consistency in the timing of judicial decisions. This system was developed internally to meet the entity's service needs.

(a) **Fair Value Measurement (Existing Requirements):** IPSAS 31.64 notes that the cost of an internally generated intangible asset (initial measurement) comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Similar to Fact Pattern 1, at subsequent measurement when fair value can be measured by reference to an active market, it is determined in the context of the highest and best financial use of the IT System. An entity would need to assess the highest and best use of the IT system beyond its intended purpose for the entity. For example, could the IT software be licensed to a higher-level court for a fee, or sold to a specific party with similar needs (e.g., a higher-level court) and a new one developed?

(b) **COV Measurement:** Also consistent with Fact Pattern 1, applying COV to the IT System will present different information to the users of the financial statements. COV values the asset as it is used – to schedule court cases – as opposed to the IT system's highest and best use, see paragraph 13(a).

(c) **Practical Application of COV**:

*(i) Applying the **market approach** requires the existence of an active market with transactions involving identical or similar assets[6].*

Similar to Fact Pattern 1, estimating COV using the market approach requires an active market, and staff notes that such a market is unlikely to exist. This is because internally generated IT systems that perform specialized tasks are unlikely to be actively traded in an active market.

[6] See paragraph B32 in IPSAS 46.

*(ii) The **cost approach** reflects the amount currently required to replace the service provided by an asset through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence.*

An entity using the **cost approach** to determine COV would estimate the amount currently required to develop an identical software. Attributable costs include the number of personnel hours required to develop the software, such as: software development, user interface, cybersecurity architecture, and project management.

When estimating COV, an entity excludes any costs incurred in researching the development of the IT system. This is because in the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable service potential. This is similar to a tangible asset, where the costs to design a building would be excluded from the COV of the item because they would not be incurred again to develop or produce an identical or similar asset.

(d) **Conclusion:** Based on this fact pattern:

(i) The highest and best use of the IT system is different than the existing use of the system, resulting in a difference between a COV and FV measurement; and

(ii) COV can practically be applied to internally generated software.

Fact Pattern 3 – Vaccine Patent

14. **Fact Pattern:** A federal government has negotiated an agreement with a pharmaceutical company to fund the development of an urgently needed vaccine. As part of this agreement, the pharmaceutical company produces the vaccines, however, the Federal government owns the patent and dictates to whom the vaccine is sold. This secures the domestic supply. The pharmaceutical company successfully developed an effective vaccine.

(a) **Fair Value Measurement (Existing Requirements):** IPSAS 31.31 requires that an intangible asset be measured at cost, when it can be reliably measured. Similar to Fact Pattern 1 and 2, at subsequent measurement when fair value can be measured by reference to an active market, it is determined in the context of the highest and best financial use of the vaccine patent. For example, the federal government could sell the patent to the pharmaceutical company, which will be free to sell the vaccine at a price determined by the market.

(b) **COV Measurement:** Also consistent with Fact Pattern 1 and 2, applying COV to the vaccine patent will present different information to the users of the financial statements. COV values the assets as it is used – to prioritize domestic supply – as opposed to its highest and best financial value, see paragraph 14(a).

(c) **Practical Application of COV**:

*(i) Applying the **market approach** requires the existence of an active market with transactions involving identical or similar assets[7].*

Similar to Fact Pattern 1 and 2, estimating COV using the market approach requires an active market, and staff notes that such a market is unlikely to exist. Vaccines, and by

[7] See paragraph B32 in IPSAS 46.

extension their patents are highly specialized assets. Though there is an expectation that these are bought and sold the question is whether these markets will meet the criteria of an active market, as described in IPSAS 46, which is a market in which transactions for the asset takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) *The **cost approach** reflects the amount currently required to replace the service provided by an asset through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence.*

An entity using the **cost approach** to determine COV would estimate the amount currently required to acquire an identical or similar patent and right to sale from a pharmaceutical company. While the price negotiated in the contract likely covers a portion of the research costs to develop the vaccine, the vaccine was not developed internally by the federal government, and the price paid by the federal government was in exchange for the patent and right to limit or direct to whom the vaccine can be sold. Referencing the current price that would have to be paid to secure the same arrangement informs financial statement users of the current cost to replace the assets – adjusted for the asset's conditions on the measurement date (i.e., remaining duration of the patent, development of competing vaccines, etc.).

(d) **Conclusion:** Based on this fact pattern:

(i) The highest and best use of the vaccine patent is different than the existing use of the patent, resulting in a difference between a COV and FV measurement; and

(ii) COV can practically be applied to vaccine patents.

Decision Required

15. The IPSASB is required to decide whether COV can be practically applied to the measurement of intangible assets.

Additional Guidance for the Practical Application of COV in IPSAS 31

Question

1. Does the IPSASB agree to develop non-authoritative guidance on the application of COV to intangible assets in IPSAS 31, *Intangible Assets*?

Recommendation

2. Staff recommend that the IPSASB agree to develop non-authoritative guidance, specifically:

   (a) Implementation guidance clarifying the use of the cost approach to estimate COV of an internally generated intangible asset at subsequent measurement shall not include research expenditures; and

   (b) Illustrative examples of the determination of COV for an intangible asset using the market and cost approaches, to be developed with the assistance of a task force.

Context

3. In December 2025, the IPSASB instructed staff to identify any gaps in the current IPSASB literature that would need to be filled to provide sufficient guidance to allow practical implementation of the IPSASB's decision 'in principle'—measuring intangible assets (IPSAS 31) at COV is consistent with the measurement guidance in the Conceptual Framework and IPSAS 46, *Measurement.*

4. This paper is intended to facilitate the discussion on whether additional guidance should be included in the IPSASB literature for a consistent application of COV in IPSAS 31.

Analysis

5. In considering whether additional guidance is needed to measure intangible assets at COV in the scope of IPSAS 31 to allow practical implementation of COV, staff notes:

   (a) Feedback received on potential practical challenges;

   (b) The role and authority of IPSAS 46; and

   (c) The level of guidance included in other IPSAS Standards that require or permit COV as a measurement basis.

Feedback Received

6. Some respondents for ED 90 noted that:

   (a) Application challenges may arise as COV was initially developed for tangible assets, specifically when applying 'modern equivalent' and 'existing location' principles to estimate COV; and

   (b) Estimating the COV of an internally generated intangible asset using the cost approach may lead to capitalizing research costs at subsequent measurement when an entity chooses the current value model as its accounting policy choice.

IPSAS 46, Measurement

7. The objective of IPSAS 46 is to define the measurement bases that assist in reflecting fairly the cost of services, operational capacity, and financial capacity of assets and liabilities. This guidance is not

specific to the substance of the asset (i.e., tangible or intangible). However, since IPSAS 46 was developed alongside IPSAS 45, *Property, Plant, and Equipment,* many of the examples used to explain how to determine COV are related to tangible assets. This does not mean that its principles are only applicable to current-value measurement of tangible assets.

Relevant IPSAS Standards Guidance

8. The following IPSAS Standards require or permit the use of COV as a measurement basis: IPSAS 12, *Inventories*, IPSAS 45, *Property, Plant, and Equipment*, and IPSAS 51, *Tangible Natural Resources Held for Conservation*. All three IPSAS Standards require an entity to apply the measurement requirements in IPSAS 46 when measuring COV at initial and subsequent measurement dates.

9. Staff notes that IPSAS 45 and IPSAS 51 provide additional implementation guidance on the application of COV for assets within their scope, such as:

   (a) IPSAS 45 addresses practical issues such as mixing assets held for different purposes within a class of property, plant and equipment, assessing whether a change in measurement basis constitutes a change in accounting policy, and determining the appropriate current value basis for land under infrastructure assets; and

   (b) IPSAS 51 provides implementation guidance and illustrative examples on determining COV for tangible natural resources held for conservation.

Proposed Path Forward

10. To address the respondents' comments and consistent with the approach taken for IPSAS 45 and IPSAS 51, staff proposes that non-authoritative guidance be developed to assist entities with applying COV in IPSAS 31:

    (a) The application of the cost approach to internally generated intangible assets at subsequent measurement, in accordance with recognition requirements, shall not include research expenditures when an entity estimates COV; and

    (b) Illustrative examples of the determination of COV for an intangible asset using the market and cost approaches should be developed with the assistance of a task force.

Proposed Implementation Guidance for internally generated intangible assets

11. Does estimating the current operational value of an internally generated intangible asset using the cost approach at subsequent measurement include research expenditures?

    No. This Standard is explicit expenditures on research, or on the research phase of an internal project, shall be recognized as an expense when incurred. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. When an entity elects the current value model as its accounting policy choice, estimate the current operational value of the intangible asset held for its operational capacity using the cost approach is permitted. The cost approach estimates the amount that would be required to replace the service capacity of the asset. Costs incurred as part of the research phase of an internally generated intangible asset would not be incurred again to replace the service capacity of the asset. This is consistent to a tangible asset, where costs incurred to design the tangible asset would not be included in the current operational value if the asset had to be replaced. An entity that applies the cost approach when estimating current operational value shall

consider all directly attributable costs currently required to replace the remaining service capacity of an asset through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence.

Decision Required

12. The IPSASB is required to decide whether non-authoritative guidance on the application of COV should be developed in IPSAS 31.