

IPSASB

International Public
Sector Accounting
Standards Board®

AGENDA ITEM 4

Adopt. Apply. Advance.

MEASUREMENT

IPSASB Meeting – June 2026

Washington, D.C.





AGENDA

1. Introductory Message

2. Project Background

3. Project Components

- Conceptual Framework
- IPSAS 45 and IPSAS 31
- Active Market Restriction

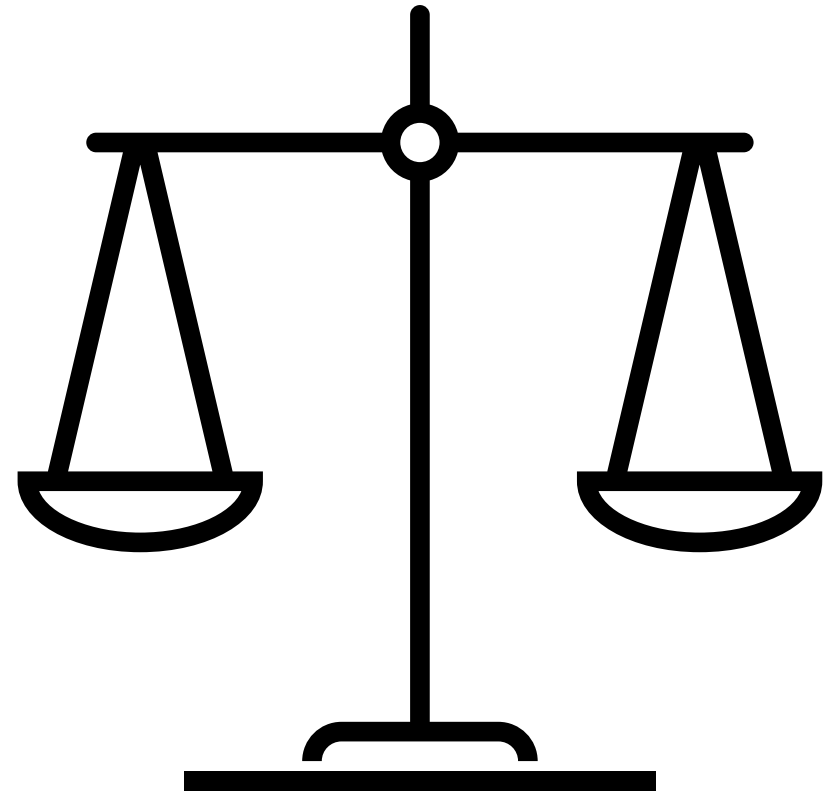
4. Issue to Consider

Introductory Message

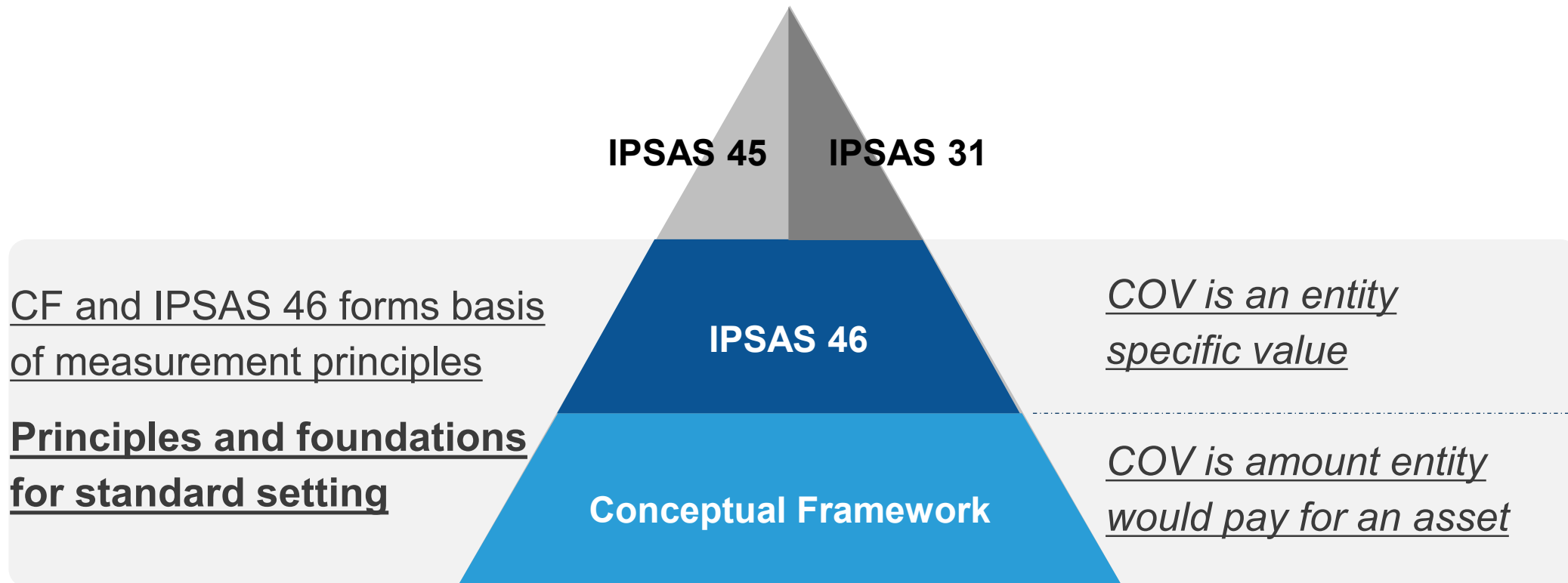
The application of COV for intangible assets is a conceptually important issue, but with **less practical relevance**:

- **Conceptual importance**: stakeholders supported IPSASB to pursue this project to consider the applicability of COV across IPSAS, including IPSAS 31
- **Practical relevance**: most jurisdictions use the historic cost model, not the current value model for subsequent measurement

This observation should guide the decision on **how much more time the Board should spend on the topic**.



Introductory Message: Structure of Presentation





AGENDA

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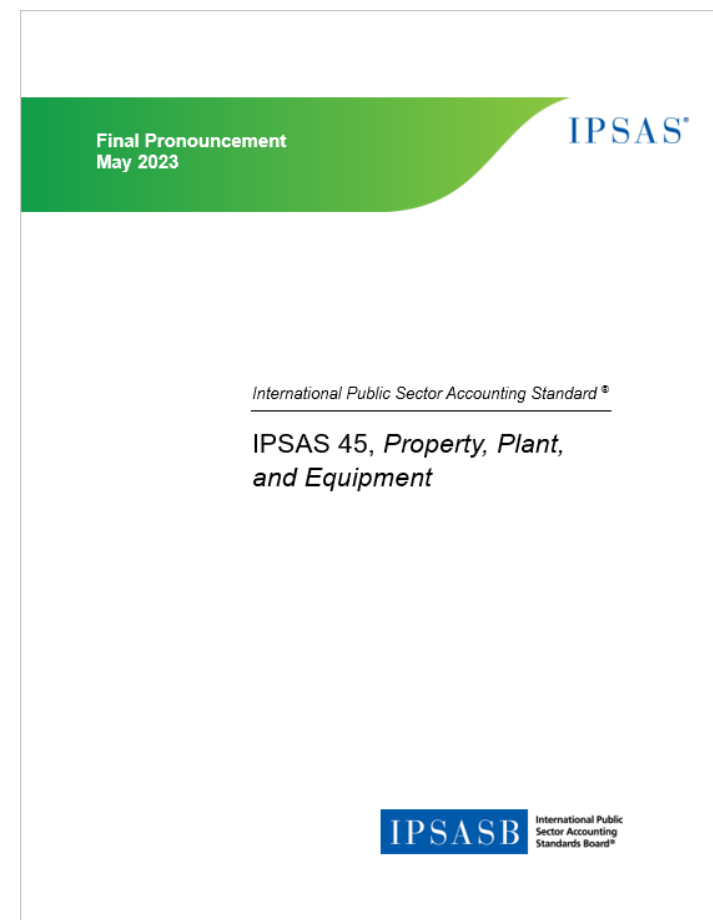
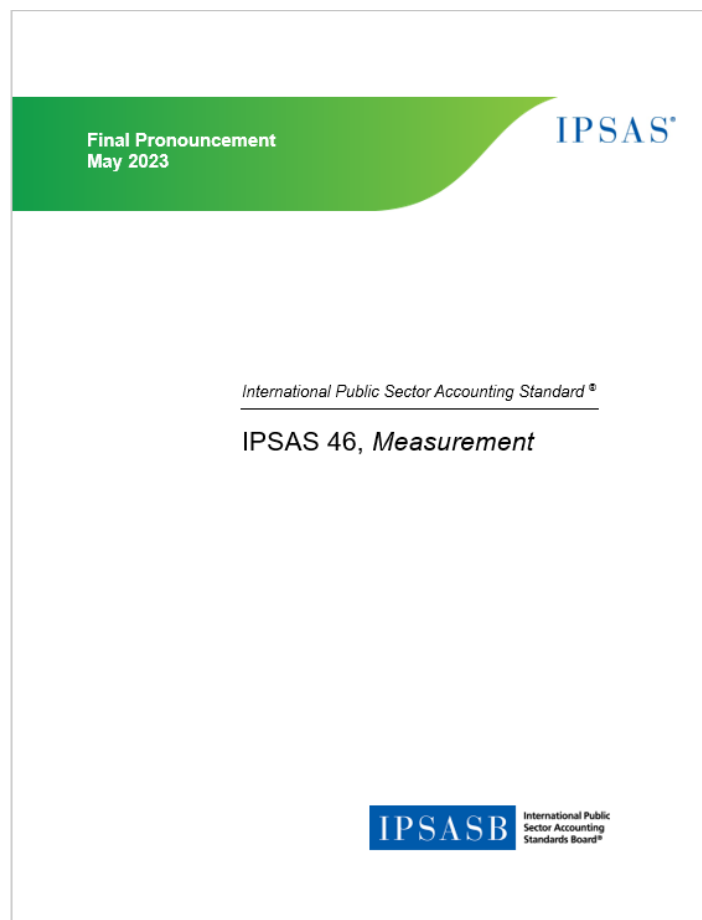
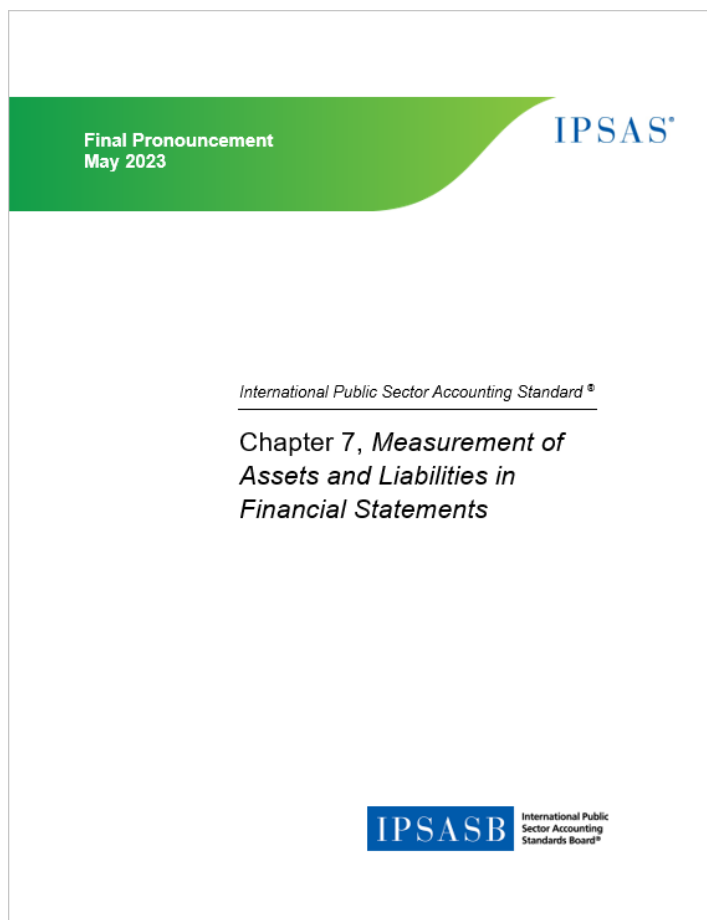
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Project Background



Project Background: Structure

Conceptual Framework, *Measurement*

The Objective of Measurement

Measurement Framework

Measurements Bases

Historical Cost

Current Operational Value

Cost of Fulfillment

Fair Value

Basis for Conclusions

Identification
and
Concepts

IPSAS, *Measurement*

Objective and Scope

Definitions

Measurements Bases

Appendices

Historical Cost

Current Operational Value

Cost of Fulfillment

Fair Value

Basis for Conclusions

WHAT is the
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HOW to
calculate the
measurement
basis?

WHY apply the
measurement
bases?

Other IPSAS

...

IPSAS 12, Inventories

...

IPSAS 16, Investment Property

...

IPSAS 19, Provisions,
Contingent Liabilities and
Contingent Assets

...

IPSAS 42, Social Benefits

WHICH
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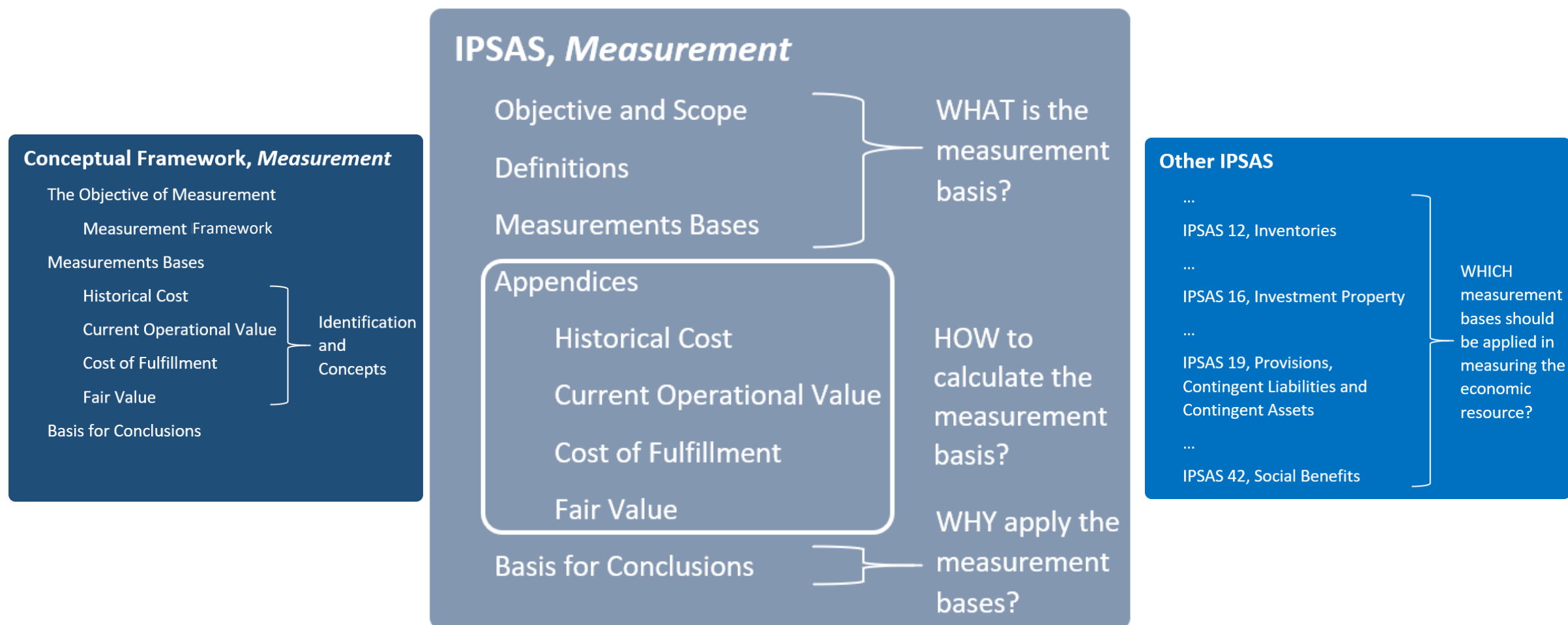
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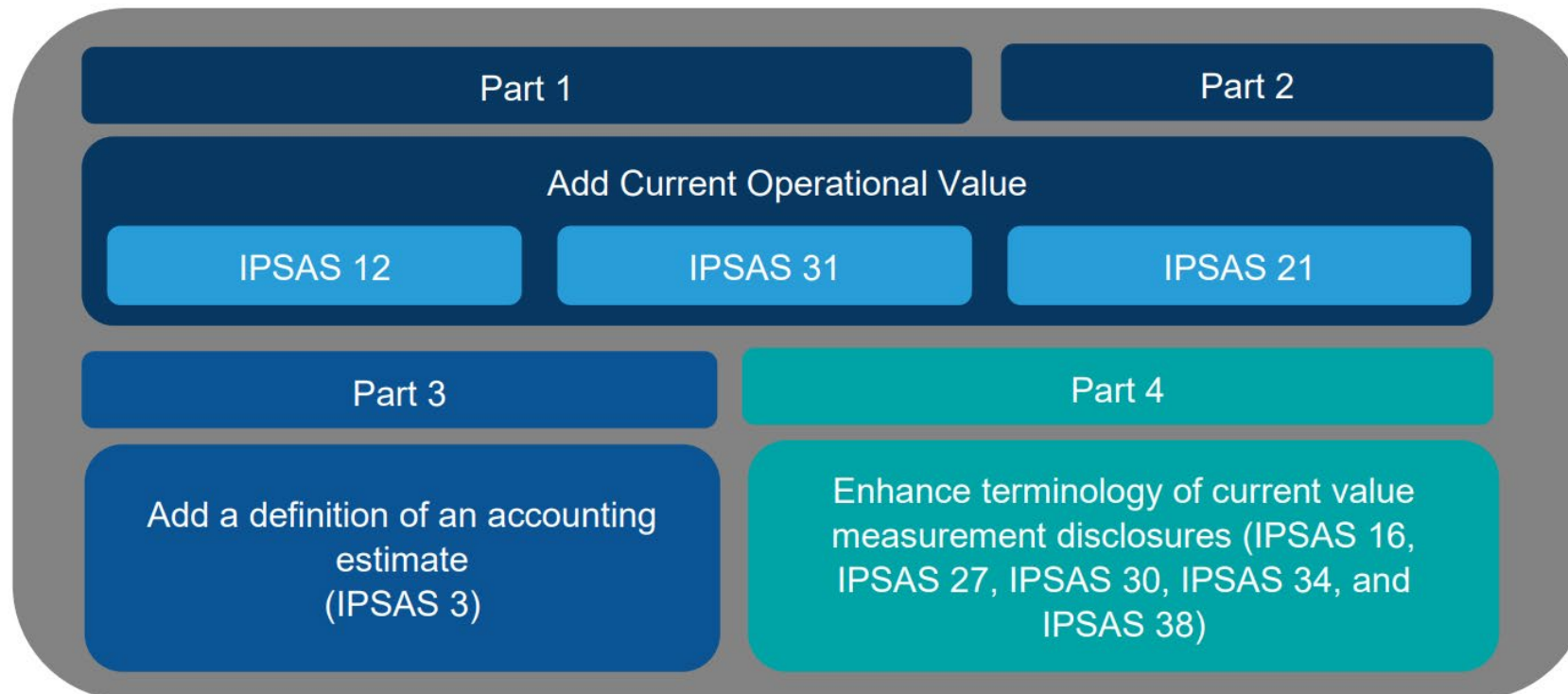
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Project Objective (Phase II)

Project Scope - In finalizing IPSASB 46, *Measurement*, the Board decided to undertake a continuing limited scope phase of the initial project to evaluate the applicability of COV across the IPSAS Accounting Standards

The result of this continued work was to propose in ED 90:



The IPSASB decided, in reviewing the mixed feedback to ED 90, to defer consideration of IPSAS 31.



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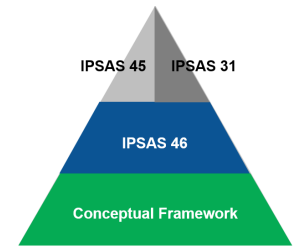
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- IPSAS 45 and IPSAS 31
- Active Market Restriction

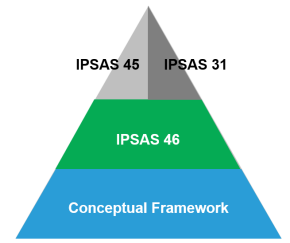
4. Issue to Consider

Conceptual Framework



- Sets out concepts for suite of IPSASB Standards
- Chapter 7 defines:
 - **Fair value.** *The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.*
 - **Current operational value.** *The amount the entity would pay for the remaining service potential of an asset at the measurement date*
- Chapter 7 highlights:
 - Fair value is for assets/liabilities held for financial capacity; and
 - Current operational value is for assets held for operational capacity.

CF + IPSAS 46, *Measurement*



- Outlines principles for measurement bases (Historical cost, COV, FV, Cost of fulfillment)

Fair Value	Current Operation Value
Highest and best use	Value in current use
Market participant perspective	Entity specific perspective
Exit value / exchange notion	Entry value / current service potential notion
Market-based measurement objective	Operational capability measurement objective
Focus on exchangeability	Focus on usable service capacity

- COV is NOT trying to estimate what would the market pay, instead COV asks:
 - What amount the entity would pay to replace the operational capacity / service potential embodied in the asset?



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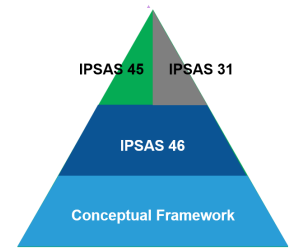
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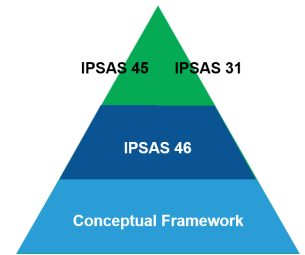
IPSAS 45, *Property, Plant, and Equipment*



	IPSAS 45	Examples
Assets held for financial capacity	Historical cost Current value: fair value	Schools, hospitals, works of art, historical landmarks, embassys, road networks, etc.
Assets held for operational capacity	Historical cost Current value: current operational value	

- IPSAS 46, *Measurement*, presumes an appropriate value is always determinable
 - Where valuation requires the use of unobservable inputs, more disclosure is required

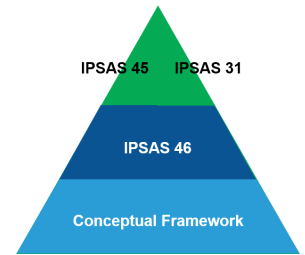
IPSAS 45 and IPSAS 31



	IPSAS 45	IPSAS 31
Assets held for financial capacity	Historical cost Current value: fair value	Historical cost Current value: fair value
Assets held for operational capacity	Historical cost Current value: current operational value	

- Issue: inconsistency between operational capacity in literature

IPSAS 45 and IPSAS 31

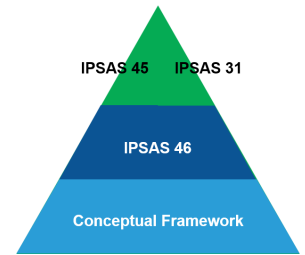


	IPSAS 45	IPSAS 31	ED 90
Assets held for financial capacity	Historical cost Current value: fair value	Historical cost Current value: fair value	Historical cost Current value: fair value
Assets held for operational capacity	Historical cost Current value: current operational value		Historical cost Current value: current operational value

- Issue: inconsistency between operational capacity in literature
- Decisions
 - Intangibles can be held for their operational capacity
 - COV can be conceptually and practically applied

Decision process applied to **IPSAS 12**,
IPSAS 16, **IPSAS 21**, **IPSAS 26**,
IPSAS 27, **IPSAS 32**, **IPSAS 36**,
IPSAS 37, **IPSAS 40**, **IPSAS 41**,
IPSAS 43, and **IPSAS 51**

IPSAS 31: Active Market Restriction



	IPSAS 45	IPSAS 31	ED 90
Assets held for financial capacity	Historical cost Current value: fair value	Historical cost Current value: fair value	Historical cost Current value: fair value
Assets held for operational capacity	Historical cost Current value: current operational value		Historical cost Current value: current operational value
	No restriction	Can only be measured by reference to an active market	No restriction

- IPSAS 31.74 is a conscious decision made by the IPSASB not to allow fair value for intangible assets in the absence of an active market



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Active Market Restriction?

- When talking about the “active market restriction” (AMR), it is important to make an important conceptual distinction:
 - The AMR under IFRS **does NOT say**: “Fair value cannot be measured without an active market.”
 - IFRS 13 clarifies how to measure fair value without an active market
 - For IPSAS, the same is clarified in IPSAS 46 Appendix D
 - The AMR is a **standard setter’s decision saying**: “For specific assets fair value is not permitted as a measurement basis if an active market does not exist.”
 - IAS 38.75 is a conscious decision of the IASB not to allow fair value for intangible assets in the absence of an active market
 - For IPSAS, the IPSASB has taken over the AMR in IPSAS 31.74

Active Market Restriction: Background

- **IPSAS 31, *Intangible Assets* aligned with IAS 38 *Intangible Assets***
- IPSASB retained active market restriction in IPSAS 31
 - The IPSASB was concerned about recognition of internally generated intangibles, artificial balance sheet inflation, and the lack of objective valuation evidence
 - The fear was if entities could freely evaluate intangibles based on model valuations, balance sheets would become highly subjective and incomparable
 - IPSAS 31 was published in 2010. At a time where accounting scandals and aggressive capitalization practices were fresh in the minds of citizens (such as brands, customer lists, publishing rights, etc.)

Active Market Restriction: Reasons for Inclusion

IPSAS 31 prioritized reliability, objectivity and prudence

Intangibles are often unique: many intangibles are entity specific, non-transferable, or inseparable from the business/the operations

- → There may be no market transaction

Value depends heavily on future expectations, such as future strategy, expected growth or synergies.

- → This creates measurement/estimation uncertainty.

Susceptibility to manipulation: a discounted cash flow valuation for an intangible can be altered materially by changing parameters, such as discount rates or growth assumptions.

- The IPSASB feared this would reduce comparability, weaken reliability and allow “manufactured equity”

Active Market Restriction: Current Context

IPSAS 46, *Measurement*

- IPSAS 46 allows sophisticated Level 3 valuations
- Complex valuation techniques are generally common

Modern IPSAS Standards accepts complex COV valuations (prioritized information to support decision making)

- IPSAS 40, *Public Sector Combinations*, requires fair value measurement of acquired intangibles even without an active market
- IPSAS 45, 'PP&E', (heritage assets, infrastructure assets, etc.)
- IPSAS 51, 'Natural Resources', (spectrum, rainforest, wildlife, bodies of water, etc.)

IPSAS 38 AMR is historically understandable, but conceptually outdated

Active Market Restriction: COV Context

Fair Value	Current Operation Value
Market participant perspective	Entity operational/service perspective
Exit value / exchange notion	Entry value / current service potential notion
Market-based measurement objective	Operational capability measurement objective
Focus on exchangeability	Focus on usable service capacity

- The IPSAS 31 Active Market Restriction was driven by concerns about:
 - Unreliable market simulations, hypothetical exchange prices, speculative future CFs
- COV is NOT trying to estimate what would the market pay, instead COV asks:
 - What amount would an entity pay to replace the operational capacity / service potential embodied in the asset?

Active Market Restriction: COV Context

Objective of COV is to facilitate an appropriate measurement to support decision making

- Avoiding systematic undervaluation of digital government assets
 - The invisibility of internally developed public sector capability,
 - Underreporting of digital transformation investment, and
 - An imbalance between physical and digital operational infrastructure
- Information for decision making



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IPSAS 31 has an active market restriction for fair value*, this raises a question for the IPSASB to consider in the context of COV for intangibles:

- **Prioritize consistency with concept of active market restriction for fair value (Option A); or**
- **Prioritize consistency with measurement concepts in IPSAS Standards (Option B).**

** Changes to active market restriction for fair value are outside the scope of this project*

Consequences – Option A

Measurement confidence through an observable foundation

- Consequences of Option A:
 - Consistency with concept of active market restriction with intangibles valuation
 - Higher threshold for measurement at current value
 - Some intangible assets would fail the threshold
 - Reduces risk of ‘balance-sheet inflation’
 - Requires more IPSASB resources to complete the project

Consequences – Option B

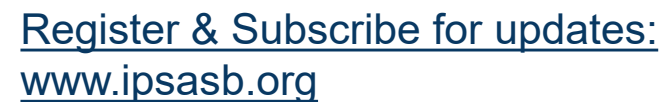
Measurement confidence through governance

- Consequences of Option B:
 - Consistency with broader IPSAS Standards measurement framework
 - The standard would accept that sufficiently disciplined estimation can produce **decision-useful information** even without observable external anchors
 - The emphasis is on transparency, estimation discipline and professional judgment
 - Limited IPSASB resources required to complete

Comparison of the Options

Option A	Option B
Explicit recognition/measurement threshold	No explicit recognition threshold
Focus on admissibility of the measurement basis	Focus on valuation process safeguards
„You may use COV only if sufficiently observable replacement evidence exists“	„You may use COV, but do it rigorously“
Primarily conceptual measurement discipline	Primarily disclosure/governance discipline

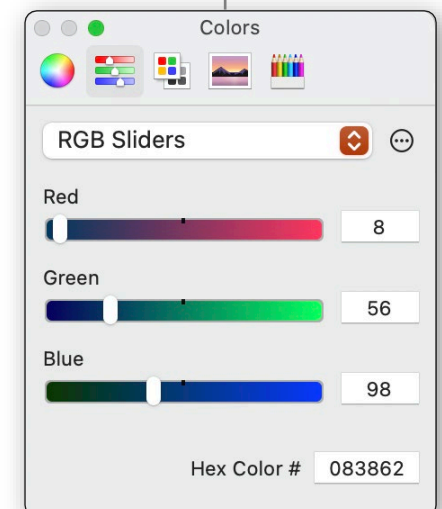
- Option A would likely produce:
 - More conservative and comparable reporting, stronger auditability, but continued under-recognition of unique digital/state capability
- Option B would likely produce:
 - Broader recognition, more operationally relevant balance sheets, but greater diversity in practice



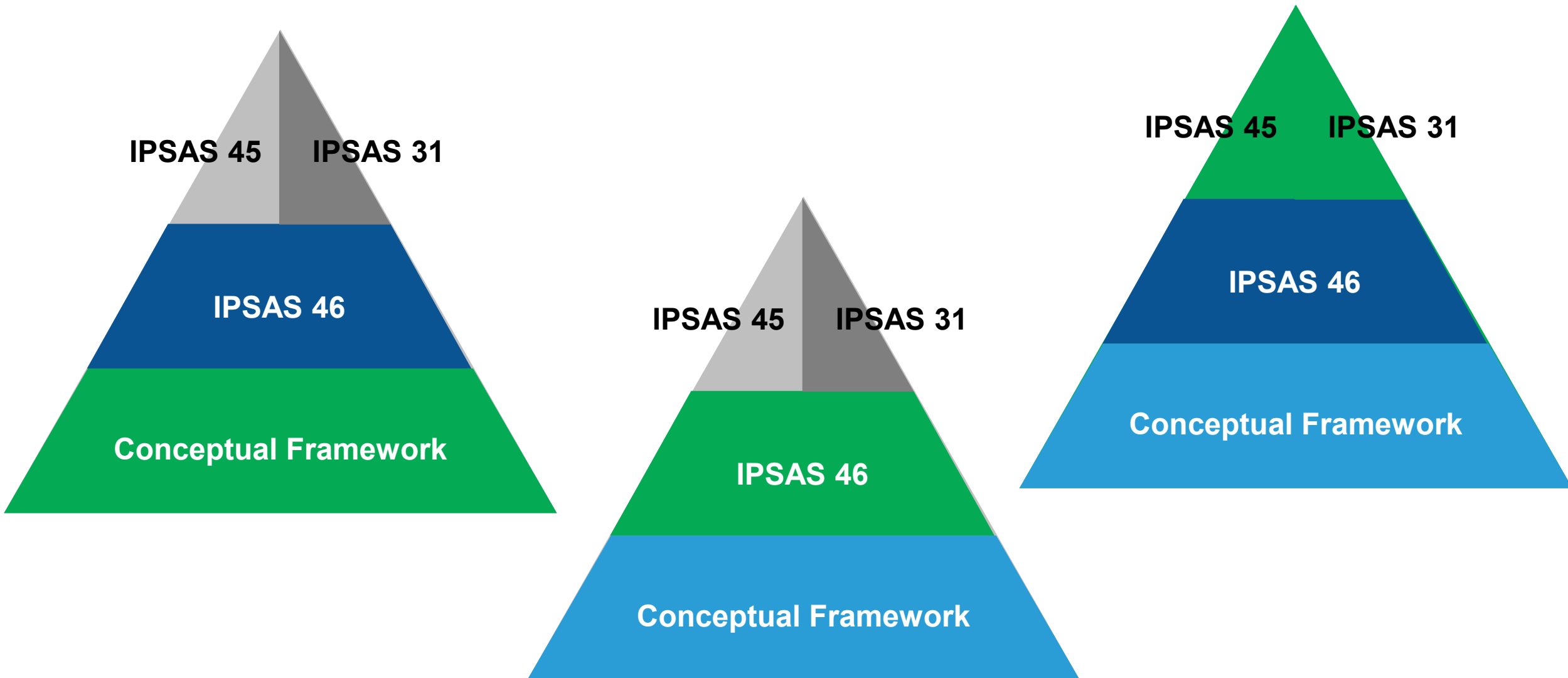
IPSASB Colors

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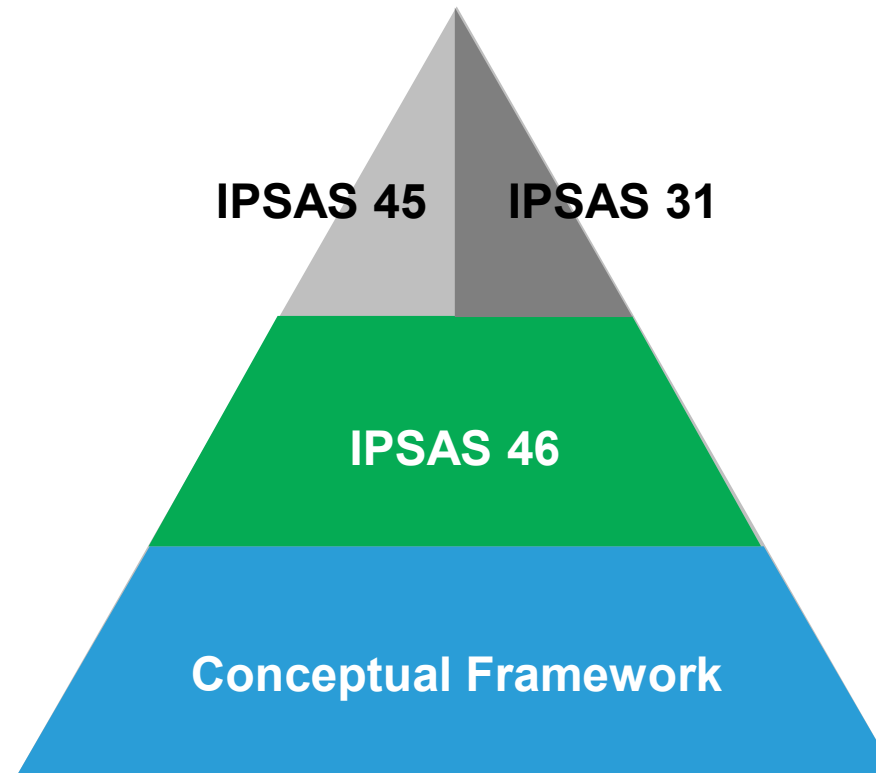
- These colors are available in the color palette of the show
- Use these # to change your icon/graphic colors
- They are your RGB Color Codes
- Colors for graphs, charts, etc. should be limited to the IPSASB brand colors:



Introductory Message: Structure of Presentation



Introductory Message: Structure of Presentation



3. Project COV in IPSAS 31 - The Missing Piece

- In previous meetings, the Board decided that COV
 - Can be **conceptually** applied to intangibles assets (*Conceptual Framework*)
 - Can be **practically** applied to intangibles assets (*IPSAS 46*)
- Building on the understanding of AMR for FV, IPSASB's *Decision Required* to finish the project is a conscious standard setter's decision (*IPSAS 31*):
 - “**Given the specific characteristics of intangible assets in the public sector, the IPSASB is required to decide whether there are reasons for IPSAS 31**
 - not to allow the application of COV to intangibles assets in the absence of an active market, or
 - to only allow the application of COV under certain (other) restrictions.”
- The following slides shall inform the Board to be able making the decision.

4. Considerations needed

- In order to make that decision, it is necessary to understand
 - the reasons why the IASB included the AMR for Fair Value in IAS 38 (and not in IAS 16),
 - existing inconsistencies within IFRS itself and the related criticism,
 - the conceptual differences between fair value and current operational value, and
 - As a consequence, whether the reasons for the AMR under fair value are transferable to COV.

5. The reasons for AMR in IAS 38 (1)

- Historic background
 - IAS 38 was developed in the 1990's, at a time where accounting scandals and aggressive capitalization practices existed around intangible assets (such as brands, customer lists, publishing rights, etc.).
 - IASB was extremely concerned about recognition of internally generated intangibles, artificial balance sheet inflation, and the lack of objective valuation evidence.
 - The fear was if entities could freely evaluate intangibles based on model valuations, balance sheets would become highly subjective and incomparable.

5. The reasons for AMR in IAS 38 (2)

- Why intangibles were seen fundamentally different
 - **Intangibles are often unique:** many intangibles are entity specific, non-transferable, or inseparable from the business/the operations
 - There may literally be no independent market transaction
 - **Value depends heavily on future expectations,** such as future strategy, expected growth or synergies.
 - This creates huge measurement/estimation uncertainty.
 - **High susceptibility to manipulation:** a discounted cash flow valuation for an intangible can be altered materially by changing parameters, such as discount rates or growth assumptions.
 - The IASB feared this would reduce comparability, weaken reliability and allow “manufactured equity”
- **IAS 38 deliberately prioritized reliability, objectivity and prudence.**

5. The reasons for NOT including AMR in IAS 16

- PPE was viewed differently from intangibles for the following reasons:
 - **PPE often has observable replacement economics:** even if there is no perfectly active market, PPE usually has replacement cost evidence, secondary markets, or insurance valuation benchmarks.
 - Valuation was therefore considered more anchored in observable economic reality
 - **PPE valuation are constrained by physical characteristics:** physical assets have measurable capacity, physical deterioration, and finite useful lives.
 - This limits valuation subjectivity compared to intangibles.
 - **Revaluations of PPE already had a long accounting tradition:** before IFRS many jurisdictions already permitted PPE revaluation, especially for land and buildings.
 - In that sense, IAS 16 inherited an established practice. By contrast, revaluing intangible assets was viewed as much more experimental and risky.
- **IAS 16 accepted more estimation uncertainty in exchange for more relevant asset values.**

5. Existing inconsistencies and criticism

- Many academics and practitioners argue that distinction has become inconsistent, because today:
 - IFRS 13 allows sophisticated Level 3 valuations,
 - Complex valuation techniques are generally common,
 - IFRS 3, Business Combinations, requires fair value measurement of acquired intangibles even without an active market,
 - Investment property can use fair value without active markets.
- **So, modern IFRS already accepts highly subjective intangible valuations in some contexts.**
- **Many people see the IAS 38 AMR as historically understandable, but conceptually outdated.**

6. Conceptual Differences between FV and COV

Fair Value	Current Operation Value
Market participant perspective	Entity operational/service perspective
Exit value / exchange notion	Entry value / current service potential notion
Market-based measurement objective	Operational capability measurement objective
Focus on exchangeability	Focus on usable service capacity

- The IAS 38 AMR was largely driven by concerns about:
 - Unreliable market simulations, hypothetical exchange prices, speculative future CFs
- COV is NOT trying to estimate what would the market pay, instead COV asks:
 - What amount currently reflects the operational capacity / service potential embodied in the asset?

7. Active Market Restriction for COV?

Potential arguments against an AMR for COV

- AMR may be conceptually inconsistent with the nature of COV
 - COV is specifically designed to address public sector situations where
 - Assets are specialized
 - Market evidence is weak or absent
 - Assets are held for service delivery rather than exchange
 - Most public sector intangibles inherently lack active markets
 - Typical public sector intangibles, such as sovereign databases or defense/intelligence software, often have no active markets, no exchangeability and highly specialized operational purposes.
- A strict AMR could therefore make COV practically unusable for many of the very assets for which COV was developed.

7. Active Market Restriction for COV?

Potential arguments against an AMR for COV

- COV is operationally anchored, not market-speculative
 - Unlike fair value of intangibles, a COV framework can be built around
 - Replacement service capacity
 - Modern equivalent operational capability
 - Remaining service potential
 - Those are often more objectively supportable than hypothetical market participant assumptions. For example, the redevelopment cost of a citizen database may be estimable without an active market.

7. Active Market Restriction for COV?

Potential arguments against an AMR for COV

- Avoiding systematic undervaluation of digital government assets
 - Modern governments increasingly derive operational capability from digital systems, data infrastructure or interoperable networks.
 - An AMR for COV could perpetuate:
 - the invisibility of internally developed public sector capability,
 - underreporting of digital transformation investment, and
 - an imbalance between physical and digital operational infrastructure
 - This is likely to become a major policy consideration in future public sector reporting.
- A strict application of AMR as for Fair Value could therefore make COV practically unusable for many of the very assets for which COV was developed.**

7. Active Market Restriction for COV?

Potential arguments against an AMR for COV

- A strict application of AMR as for Fair Value could therefore make COV **practically unusable for many of the very assets** for which COV was developed.
- Conceptually, importing the IAS 38 (IPSAS 31) AMR for fair value application unchanged into a COV model would be **difficult to justify as the IAS 38 AMR was fundamentally designed for:**
 - Exchange price uncertainty,
 - Market-participant assumptions, and
 - Fair Value-related concerns.

→ COV is built on a different measurement objective.

However, the (reliability) concerns, that motivated IAS 38, do not disappear just because the measurement basis changes – see next section!

8. The remaining problems (1)

Potential arguments for restricting the application of COV for intangibles

- Reliability and auditability concerns remain very real
 - Even under COV, intangible valuation can become highly subjective.
 - Without AMR-comparable assumptions about replacement functionality, obsolescence, service equivalence or internally generated capability can become highly judgmental.
- Risk of internally generated “balance sheet inflation”
 - Governments could potentially capitalize and periodically remeasure intangibles (such as internally generated software, strategic databases, policy platforms or AI systems) using internally generated valuation models. Without sufficiently strong discipline this may
 - materially inflate net assets,
 - reduce credibility, and
 - create political incentives for aggressive valuation.

8. The remaining problems (2)

Potential arguments for restricting the application of COV for intangibles

- Intangible service potential is often harder to separate from the entity
 - For many intangibles, value is deeply intertwined with
 - Organizational processes,
 - Workforce capability,
 - Legal powers,
 - Institutional know-how.
 - The conceptual question remains: is the asset really separable enough to support periodic current value measurement?
 - The implementation of specific restrictions could indirectly serve as evidence of separability.

9. Potential Solutions - the key conceptual question

The decisive standard setting question is: What is the objective of COV for intangible assets?

- As COV is intended primarily to reflect operational capability / service capacity an active market restriction appears conceptually to restrictive (see above under 7.)
- However, amounts determined under COV also need to fulfill the QC's of reliability and relevance (decision-usefulness) – therefore some restriction mechanism may still be justified.

9. Potential Solutions

The dividing line for a standard setting solution is the question: “Is uncertainty a disclosure issue or a recognition issue?”

- One option would be that even highly uncertain operational value estimates may still be decision-useful if transparently disclosed and rigorously prepared (*Option A*).
 - Uncertainty primarily affects disclosures, audit scrutiny, and estimation techniques.
 - Question: “Can management estimate the value responsibly?”
- An alternative option would be that beyond a certain point uncertainty becomes so severe that COV ceases to be sufficiently representational faithful (*Option B*)
 - Uncertainty affects whether COV is permitted at all, which would be much more restrictive conceptually.
 - Question: “Can the measurement be externally anchored sufficiently?”

9. Potential Solutions – Option A

Measurement confidence through governance

- Under Option A, the standard would effectively say:

“COV is an acceptable measurement basis for intangibles even without observable market or replacement evidence, provided the valuation process is sufficiently robust.”

- The discipline comes from
 - Disclosures, and Valuation governance,
 - Documentation including sensitivity analysis
 - External review and audit scrutiny.
 - The emphasis of Option A is on transparency, estimation discipline and professional judgment
 - The standard would essentially accept that sufficiently disciplined estimation can produce decision-useful information even without observable external anchors.
- This is actually close to how IFRS 13 operates Level 3 fair values.

9. Potential Solutions – Option A

Measurement confidence through governance

- Consequences of Option A:
 - Option A allows highly judgmental valuations if appropriately justified.
 - Intangible assets (such as internally developed AI-enabled tax system or defense cyber capability software) could be permitted to be measured at COV even if there is
 - no observable market,
 - no external replacement benchmark, and
 - no directly observable redevelopment evidence,
 - but if management could still estimate
 - Service potential,
 - Current equivalent functionality and/or
 - Current replacement capability.

9. Potential Solutions – Option B

Measurement confidence through observable foundation

- Option B is more restrictive. The standard would say:
“COV may only be used when the entity can demonstrate sufficiently observable and supportable replacement/service capacity evidence.”
- Under Option B, observable replacement evidence becomes a formal admissibility criterion for the application of COV to intangibles, not merely a disclosure matter.

9. Potential Solutions – Option B

Measurement confidence through observable foundation

- Consequences of Option B:
 - Some intangible assets would fail the threshold.
 - Especially for some public sector specific intangible assets (such as highly unique internally developed AI system, institutionally embedded know-how systems or unique integrated sovereign data ecosystems) the application of COV would probably be prohibited, because replacement evidence becomes too hypothetical or entity-specific.
 - Probably allowed would be the application of COV for intangibles such as
 - Enterprise software with observable redevelopment costs
 - Externally procured digital platforms
 - Licences with observable renewal economics.

9. Potential Solutions - Comparison of the Options

Option A	Option B
No explicit recognition threshold	Explicit recognition/measurement threshold
Focus on valuation process safeguards	Focus on admissibility of the measurement basis
„You may use COV, but do it rigorously“	„You may use COV only if sufficiently observable replacement evidence exists“
Primarily disclosure/governance discipline	Primarily conceptual measurement discipline

- Option A would likely produce:
 - Broader recognition, more operationally relevant balance sheets, but greater diversity in practice.
- Option B would likely produce:
 - More conservative and comparable reporting, stronger auditability, but continued under-recognition of unique digital/state capability

9. Potential Solutions - Comparison of the Options

- From a purely conceptual COV perspective, Option A is arguably the cleaner model because:
 - COV is inherently entity-specific and entity-operational,
 - COV is not market-exchange based,
 - A too excessive emphasis on external observability risks importing the fair value logic back into COV.
- However, from a practical standard-setting and public-interest perspective, Option B may ultimately be easier to defend because it:
 - Places principled limits on highly speculative valuations,
 - Improves comparability,
 - Reduces fiscal/political manipulation risk, and
 - Gives auditors a clearer threshold to audit against