

**Supporting Document 1 – [draft] Final Pronouncement**

This Agenda Item presents the [draft] Final Pronouncement, Application of Current Operational Value to Intangible Assets (Amendments to IPSAS 31 and IPSAS 46) and is provided to support the IPSASB's consideration of Agenda Item 6.A.1-6.A.3.

The [draft] Final Pronouncement is posted with track changes for easier review, and a clean version is available upon request.

Final Pronouncement  
October 2026

IPSAS®

*IPSAS® Accounting Standard*

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*Application of Current  
Operational Value to  
Intangible Assets*  
(Amendments to IPSAS 31  
and IPSAS 46)

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**APPLICATION OF CURRENT OPERATIONAL VALUE TO INTANGIBLE ASSETS  
(AMENDMENTS TO IPSAS 31 AND IPSAS 46)**

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DRAFT

## Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 26, 28, 31, 43-45, 71, 74, 78, 80, 82, 121(c), 121(c)(i), 123A, 123C(a)-123C(g), and 123D-123E are amended. Paragraphs 71A, 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.

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### 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.

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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 fair value of the asset~~ can be measured reliably<sup>1</sup>.**

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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, Measurement when measuring the deemed cost of intangible assets.**

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### Intangible Assets Acquired through Non-Exchange Transactions

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43. Under these circumstances the cost of the item is its deemed cost~~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 deemed cost~~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.

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<sup>1</sup> 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.

## 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.

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## Subsequent Measurement

71. **An entity shall choose either the historical cost model in paragraph 73 or the current value model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the current value model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets held for their financial capacity.**
- 71A. When the measurement requirements are applied to intangible assets after recognition, an entity shall apply IPSAS 46.

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## 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 financial capacity is measured at fair value, and when held primarily for its operational capacity it is measured at current operational value. 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. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market.**
- 74A. The measurement basis used to measure current value, either fair value or current operational 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 fair value to current operational 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 revaluations under this Standard, fair value shall be measured by reference to an active market.~~

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80. If an intangible asset in a class of revalued intangible assets held for its financial capacity cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.

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82. The fact that an active market no longer exists for a revalued intangible asset measured at fair value may indicate that the asset may be impaired and that it needs to be tested in accordance with IPSAS 21 or IPSAS 26, as appropriate.

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## Disclosure

### General

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121. An entity shall also disclose:

(a) ...

(b) ...

(c) For intangible assets acquired through a non-exchange transaction and initially recognized at deemed cost~~fair value~~ (see paragraphs 42–43):

(i) The ~~deemed cost~~ current fair value initially recognized for these assets;

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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 current 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),~~ current operational value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

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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 current operational value or 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~~ current operational value or 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 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).~~ current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs;
- (c) ~~For recurring and non-recurring~~ current operational value ~~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~~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~~ current operational value ~~or fair value~~ measurements estimated using 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;
- (d) ~~For recurring fair value measurements categorized within Level 3 of the fair value hierarchy,~~ current operational value measurements estimated using significant unobservable inputs, 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,~~ current operational value measurements estimated using significant 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
- (g) ~~For recurring fair value measurements categorized within Level 3 of the fair value hierarchy~~ current operational value measurements estimated using significant unobservable inputs, a narrative description of the sensitivity of the current operational value ~~fair value~~ measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower current operational value ~~fair value~~ measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value ~~fair value~~ measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the current operational



~~value fair value~~ measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

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:

- (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~~, current operational value measurements estimated using significant unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of intangible assets for which disclosures about current operational value or 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 historical cost~~ fair value in the statement of financial position but for which the current operational value or fair 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~~, current operational 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.

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## Effective Date

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132P. Paragraphs 26, 28, 31, 43–45, 71, 74, 78, 80, 82, 121, 123A, 123C–123E are amended, paragraphs 71A, 74A, ~~74B~~, and AG12–AG15 are added by *Application of Current Operational Value to Intangible Assets* (Amendments to 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.

## Application Guidance

*This Appendix is an integral part of IPSAS 31.*

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### 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 amortization, and subsequent accumulated impairment losses.

### Operational and Financial 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.

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## Basis for Conclusions

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

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### Revision of IPSAS 31 as a result of the application of IPSAS 46, *Measurement*

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- BC16. 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 Standards. 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.
- BC17. 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. ~~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 measure.~~ Responses to Exposure Draft (ED) 77, *Measurement*, did not identify an immediate need to evaluate the application of current operational value to intangible assets. Accordingly, Current-current operational value was ~~therefore~~ not added as an available measurement basis to IPSAS 31 at that time. This process would allow for the allocation of dedicated resources to evaluating the application of measurement bases to the specific IPSAS Standards following the establishment of the principles and the publication of IPSAS 46.
- ~~BC18. 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*.~~

### Revision of IPSAS 31 as a result of Part 4 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

- BC18. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.
- BC19. In August 2024, the IPSASB published ED 90, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:
- (a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and
  - (b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).
- BC20. The IPSASB discussed that:
- (a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

- (b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC21. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

#### **Development of ED 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement**

BC22. Following the approval of IPSAS 46, the IPSASB decided to expand the scope of the measurement project and evaluate the applicability of current operational value across the IPSAS Standards. Since current operational value measures the current value of an asset, this phase of the project included all effective IPSAS Standards that provided guidance for measuring assets. To determine the applicability of current operational value, the IPSASB evaluated whether an asset in scope of the IPSAS Standard could be held for operational capacity.

BC23. As part of ED 90, the IPSASB determined that intangible assets can be held for their operational capacity. Accordingly, an entity's selection of a current value measurement basis should be determined by, and be consistent with, the purpose for which the intangible asset is held.

BC24. The IPSASB noted the importance of maintaining consistency with principles developed in IPSAS 46 and Chapter 7 of the Conceptual Framework and determined that the current value measurement methodology should be consistently applied regardless of whether an asset has, or does not have, physical substance.

BC25. Therefore, the IPSASB proposed including current operational value in IPSAS 31. Current operational value, when elected as a measurement basis, would enable an entity to present more relevant measurement information to financial statement users by better reflecting the capacity in which the entity holds an asset.

#### **Reference to an Active Market**

BC26. In developing ED 90, the IPSASB considered whether the IPSAS 31 requirement for fair value measurement to be referenced to an active market should also apply to intangible assets measured at current operational value.

BC27. Since intangible assets are generally specialized, IPSAS 31 requires fair value to be measured by reference to an active market because it may be challenging to assess reliably the price an entity would receive from a market participant (i.e., exit price) unless the intangible assets' fair value can be determined by reference to an active market. However, the IPSASB concluded that the same challenge did not apply when measuring current operational value because current operational value is an entity-specific entry value for the remaining service potential of an asset. Thus, the principles of current operational value enable an entity to reliably assess the amount it would pay for the remaining service potential of an intangible asset without reference to an active market.

#### **Feedback from Constituents on ED 90**

BC28. The majority of respondents to ED 90 supported the IPSASB's proposals to make current operational value an available measurement basis for intangible assets. Those respondents that disagreed with the proposals noted that:

- The applicability of current operational value in IPSAS 31 should only be considered after the IASB review and revision of IAS 38 *Intangible Assets*. Respondents emphasized that amendments from the IASB project may impact aligned principles in IPSAS 31 and as a result, may require the reassessment of the applicability of current operational value;

- The application of COV to certain types of intangible assets (i.e., internally generated intangible assets and research costs) may not provide reliable and faithfully representative information;
- There are potential challenges in applying the principles of current operational value for intangible assets since current operational value was originally developed for tangible assets; and
- The absence of the requirement for current operational value to reference an active market may create measurement inconsistencies for intangible assets and may result in different revaluation measurements for similar assets held for operational capacity compared to those held for financial capacity.

#### **IPSASB Response to Feedback on ED 90**

- BC29. The IPSASB developed current operational value as a measurement basis that is consistent with the Conceptual Framework and supports the measurement of public-sector assets held for operational capacity. As current operational value addresses identified stakeholder interests and is public sector specific, the IPSASB concluded that the applicability of current operational value should be considered independently of any amendments to IAS 38.
- BC30. The IPSASB agreed with the majority of ED 90 respondents and decided that current operational value should be available as a measurement basis for intangible assets held for their operational capacity. The IPSASB confirmed that there are no significant measurement differences between tangible and intangible assets in the public sector. Asset specialization and the need for professional judgement in valuation estimates are not asset characteristics exclusive to intangible assets. Furthermore, similar levels of judgement are routinely required in the application measurement principles across other IPSAS Standards, including where specialized assets are involved. Accordingly, the COV measurement principles should be applied to intangible assets on the same basis as tangible assets.
- BC31. When evaluating whether current operational value in IPSAS 31 should be measured by reference to an active market, the IPSASB considered the responses to ED 90 and weighed the alternatives between:
- a. Prioritizing consistent current value measurement principles by requiring reference to an active market when measuring the current operational value of intangible assets in IPSAS 31; and
  - b. Prioritizing consistent application of the measurement framework developed in IPSAS 46 and Chapter 7 of the Conceptual Framework.
- BC32. The IPSASB elected to maintain consistent application of the measurement principles in IPSAS 46 when measuring intangible assets using current operational value. In reaching this conclusion, the IPSASB acknowledged the deliberate conceptual distinctions between fair value and current operational value as measurement bases. Fair value seeks to estimate the price that would be received to sell the asset at its highest and best use in an orderly market transaction. Given the specialized nature of most intangible assets, pricing information that would be used by market participants may not be readily available. In contrast, current operational value was specifically designed to identify an entity-specific value for an asset's usable service capacity in its existing use. Because current operational value is an entity-specific value, reliable data is readily available to estimate a value and reference to an active market is unnecessary.

### 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 shall 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.

## AMENDMENTS TO IPSAS 46, *MEASUREMENT*

This Agenda Item presents an extract from the Implementation Guidance to IPSAS 46, *Measurement*. This extract reflects the IPSASB's response to stakeholders requesting additional guidance on the application of current operational value to intangible assets.

The Implementation Guidance is posted with track changes for easier review, and a clean version is available upon request. Consider the following during review:

- Grey Shading: Unamended text from IPSAS 46, *Measurement*
- New text is underlined and deleted text is ~~struck through~~

### Implementation Guidance

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#### Section D: Current Operational Value

##### D.4. *Is the currently unused capacity of an asset excluded from the current operational value of an asset?*

It depends. Any part of the asset that is currently unused is evaluated to determine whether the unused part is held for an operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, or when the unused portion is necessary for future use (see decision tree below).

For example, a community center in a municipality prone to natural disasters has a capacity of 700 individuals even though only 200 individuals currently use the location on a regular basis. The unused portion still has operational capacity because the building has a dual purpose. It is operated as both a community center and as a shelter for the community in the event of a natural disaster. The currently unused capacity of 500 individuals is still required for the municipality's broader operational purpose and so the whole asset is included in the measurement of its current operational value.

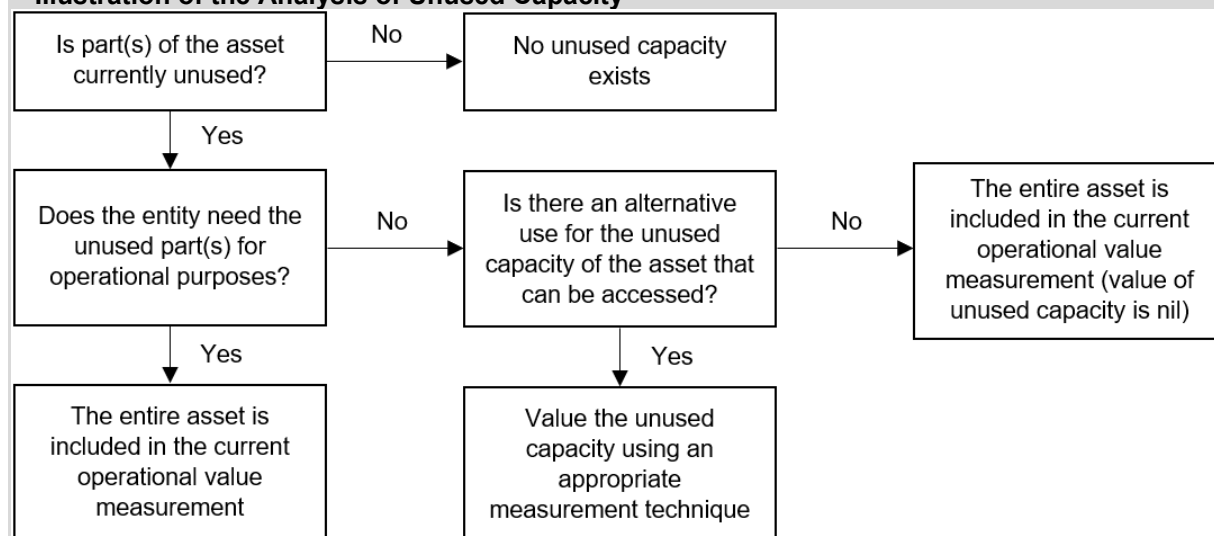
Another example might be where the currently unused part of the asset is expected to be required in the near future. In circumstances where a school is built in a community that is rapidly growing, it may have been constructed to take the anticipated student numbers rather than the existing student numbers. The current unused portion is, therefore, required and is included in the measurement of the school's current operational value.

This principle is also applicable in the context of intangible assets. For example, a coastal city may hold a 10-year lobster fishing quota permitting an annual catch of up to 500 tons, of which only 200 tons are currently required to satisfy tourism-related demand. However, as the city continues to develop and attract more tourists, the entire lobster quota is expected to be utilized to meet the resulting increase in demand. In this case, the currently unused lobster quota is included in the current operational value of the lobster fishing quota.

Where it is determined that the unused part of the asset has no operational purpose, an entity must determine whether it has an alternative use. When an alternative use is currently available, the relevant part of the asset is valued as a separate unit of account using an appropriate measurement basis. Where the unused part has no alternative use, it is included in the current operational value, but has no value.



### Illustration of the Analysis of Unused Capacity



D.6. *What factors are considered in identifying a modern equivalent asset, and what adjustments are necessary to reflect the current operational value of the existing asset?*

A modern equivalent should reflect the same characteristics as the asset being measured. If the modern equivalent asset has a different service potential from the asset being measured (although necessarily the same nature), comparison techniques are used to adjust for the difference between the service potential of the entity's asset being measured and the service potential of the equivalent reference asset.

For example, internally generated software may be compared to the latest version of software capable of providing an equivalent service to the entity. The latest software would be considered the modern equivalent of the entity's internally generated software, and its service potential may require adjustment for differences in factors such as user support capacity, features and modules, automation and efficiency potential to measure the current operational value of the entity's internally generated software.

In some circumstances a modern equivalent asset may not be reflective of the asset being measured. For example, it may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as an historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent would not represent the heritage value of the asset and therefore would not be a suitable measurement.

The cost of a modern equivalent asset will reflect the amount that would be paid if the asset were developed or produced on the measurement date. However, there are factors that may result in the cost of the modern equivalent asset being different from that of creating the actual asset:

- (a) **Phasing of work** – An asset may have been developed in phases. The cost of a modern equivalent asset would be based on a single-phase development, and measured at the cost at the measurement date. A single-phase development may still occur over an extended period of time.
- (b) **Borrowing costs** – If the entity does not capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*, the entity disregards any financing costs in measuring the modern equivalent asset.
- (c) **Additional costs arising from extending an existing asset** – These costs are not considered as the valuation will be of a modern equivalent asset.



- (d) Contract variations – Additional construction and/or development costs because of contract variations should not be considered. The modern equivalent asset being valued will have the same service capacity as the existing asset in its existing use.
- (e) Planning changes – Entities should consider whether planning-regulatory consent would need to be obtained to construct and/or develop the modern equivalent asset and take this into account.

It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.

DRAFT

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