Agenda Item 12: Public Sector Measurement

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IPSASB Meeting
June 19–22, 2018
Toronto, Canada
Overview

Introduction

1. Flow chart – subsequent measurement of assets
2. Exposure draft (ED) - subsequent measurement
3. Fair value in the ED
4. (a) Equivalence table, and (b) Revisions to CP & ED
5. Education session: Measurement of liabilities
Introduction

- Project management:
  - Instructions (agenda paper 12.1.1)
  - Decisions (agenda paper 12.1.2)
  - Project road map (agenda paper 12.1.3)
September 2017: IPSASB considered four options

A. IPSAS

B. IPSAS (IFRS)

C. IFRS (IPSAS)

D. IFRS
1. Flow chart – Subsequent Measurement of Assets

- What are the IPSASB’s views on the flow chart for subsequent measurement of assets?

- See agenda item 12.2.1
1. Flow chart – Subsequent Measurement of Assets

1. Held on on-going basis?
   - No
   - Yes: 2. On historical cost model?
     - No: 3. Is it a specialized non-financial asset?
       - No: B. Replacement cost
       - Yes: D. Fair value (refer to levels)
     - Yes: A. Historical cost
   - Yes: 4. Active, open & orderly market for asset?
     - No: E. Net selling price
     - Yes: C. Market value
1. Flow chart – Subsequent Measurement of Assets

- Work-in-progress
- Focuses on non-financial assets and aims to address most of their measurement needs
- Reflects:
  - Conceptual Framework approach to measurement; and
  - IPSASB support for use of fair value in some circumstances
1. Apply Flow Chart to IPSASs / Assets

1. Inventories (IPSAS 12)
2. Property, Plant and Equipment (PP&E) (IPSAS 17)
3. Intangible Assets (IPSAS 31)
4. Biological assets and agricultural produce (IPSAS 27)
1. Inventories’ Subsequent Measurement

- Flow chart: Inventories are not held on on-going basis:
  - If market is active, open and orderly then use fair value
  - Otherwise use net selling price
- IPSAS 12: Inventories
  - At cost
  - If below cost, use current replacement cost or net realizable value
  - Consider consequential amendments
1. PP&E: Subsequent Measurement

- Flow chart: PP&E is held on on-going basis:
  - Historical cost model: Use historical cost
  - Revaluation model: Use replacement cost (RC), if specialized, and otherwise market value (MV)

- IPSAS 17: PP&E
  - If cost model use historical cost
  - If revaluation model, use fair value (derivation includes RC & MV)
  - Consider consequential amendments
1. Intangible Assets: Subsequent Measurement

- Flow chart: Intangibles are held on on-going basis:
  - Historical cost model: Use historical cost
  - Revaluation model: Use replacement cost (RC), if specialized, and otherwise market value (MV)

- IPSAS 31: Intangible assets
  - If cost model use historical cost
  - If revaluation model, use fair value; only useable if active market
  - Consider consequential amendments
1. Agriculture: Subsequent Measurement

- Flow chart: Agricultural produce & biological assets arguably not held on on-going basis:
  - If market is active, open and orderly then use fair value
  - Otherwise use net selling price
- IPSAS 27: Agricultural product & biological assets
  - At fair value less costs to sell (historical cost if fair value cannot be measured reliably)
  - Consider consequential amendments
1. Flow Chart: Decision Required

- Note that Task Force plans to do further work on:
  - The flow chart; and
  - Related text in ED XX, *Measurement*

For the September IPSASB meeting
2. ED Text: Subsequent Measurement - Assets

• What are IPSASB’s views on the draft ED text for subsequent measurement of assets?
• See agenda paper 12.3.1—ED XX, *Measurement*
2. ED Text: Subsequent Measurement - Assets

• Applies flow chart (in Topic 1)
• Refers to other IPSASs for depreciation, amortization and impairment
• Applies previous directions from IPSASB and Chairs:
  – Keep concise
  – Articulate measurement principles
  – Address public sector issues
  – Address historical cost model and revaluation
2. ED Text: Subsequent Measurement - Assets

Decision required:

- Approve the broad direction of ED’s section “Subsequent Measurement–Assets,” and
- Identify revisions to bring back in September
3. Fair Value in the ED

• What are the IPSASB’s views on ED XX’s coverage of fair value measurement?
  – Extent of coverage (high level or detailed approach)
  – Location within ED XX
  – Revisions to text from IFRS 13, *Fair Value Measurement*
3. Fair Value in the ED

Previous IPSASB directions:

- Fair value should have same meaning as in IFRS 13, *Fair Value Measurement*
- ED XX should:
  - Reproduce IFRS 13 content to establish meaning of fair value; and
  - Include IFRS 13 definitions and other necessary IFRS 13 material
3. Fair Value in the ED: Extent of Coverage

- ED XX has most of IFRS 13’s coverage
  - Applies working assumption that same coverage needed as deemed necessary by IASB
- This detailed coverage is different in style from the rest of ED XX, which takes a high level, principles-based approach.
3. Fair value in the ED: Location of Coverage

- For this discussion ED’s fair value coverage is in a separate section
- Other locations to consider:
  a) Distribute coverage throughout ED, under appropriate headings (e.g. all fair value disclosures in the “Disclosure”)
  b) Place some detail in an appendix to either IPSAS, *Measurement*, or another IPSAS
3. Fair value in the ED: Revisions to IFRS 13 text for inclusion in ED XX

- Agenda paper 12.2.3 describes:
  - Revisions already made to the underlying IFRS 13 (see paragraph 6) prior to including it in ED-XX; and
  - Further revisions that have been proposed (see paragraph 7)
3. Decisions required: IPSASB asked to:

- Agree that ED XX provide **high level, principles-based** coverage of fair value measurement. Detail in an appendix to either:
  - ED XX, *Measurement*, or
  - Another IPSAS
- Agree with revisions already made to IFRS 13 text; and
- Provide views on further revisions to the IFRS 13 text
4. (a) Equivalence Table: Question for IPSASB

• What are the IPSASB’s views on the equivalence table?

(See agenda paper 12.3.2 for equivalence table)
4. (a) Equivalence Table

- Comprehensive coverage of IPSAS measurement-related terms, including IFRS 13 definitions incorporated into ED XX
- Government finance statistics (GFS) and International Valuation Standards (IVS):
  - Equivalents for terms where available
  - Coverage that covers a broadly similar idea or a reference to the accounting term where equivalents not available
4. (a) Equivalence Table

- Non-authoritative, since includes material from third party sources (GFS and IVS), which are outside the IPSASB’s control
- Recommend that table be posted as resource on the IPSASB website (and not incorporated into the ED or CP)
- Work ongoing on refining the equivalence table
4. (a) Equivalence Table: Decision required

- Note the on-going development of the equivalence table as non-authoritative material
4. (b) Revisions to CP & ED since March 2018

- IPSASB asked to note revisions to the CP and ED since March
- Revisions are shown in agenda paper 12.3.1:
  - CP chapters 1 and 2: Revisions as directed in March
  - CP Chapter 3, Borrowing Costs: Inter-meeting review revisions
  - ED sections:
    - Objective, Scope: Revisions since March
    - Defined Terms, Initial Measurement, Transaction and Borrowing Costs: Revisions show IPSASB March decisions & Chairs’ subsequent decisions
4. (b) Revisions to CP & ED Since March 2018

Decision required:

• Note revisions to the CP and ED
Aim of session:

- Discuss subsequent measurement of liabilities (supported by information on individual IPSASs as examples)
- Identify issues for development of ED sections on subsequent measurement of liabilities (for approval at IPSASB’s September 2018 meeting)
Education Session Overview

1. Review approach-December 2017
3. Examples to discuss:
   - IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*
   - IPSAS 39, *Employee Benefits*
1. Review approach—December 2017

- Apply rebuttable presumption that IPSAS measurement will need revision for consistency with Conceptual Framework (CF)
  - Revisions necessary if IPSAS measurement only broadly consistent with CF measurement basis

- Where IPSAS has revaluation model:
  - Determine whether exit or entry value
  - Where IPSAS refers to fair value:
    - If entry value, IFRS 13 definition inappropriate
    - If exit value, apply IFRS 13 fair value definition
  - Consider whether value should be entity-specific or not
• Guidance to select measurement bases:
  – The objective of measurement
  – Measurement bases for liabilities (with classification)
• Discussion of each measurement basis (objective of measurement, qualitative characteristics and constraints)
To select measurement bases that most fairly reflect entity’s
• cost of services,
• operational capacity and
• financial capacity
in a manner that is useful in holding the entity to account, and for
decision-making purposes
## CF-2. Measurement Bases

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical cost</td>
<td>Historical cost</td>
</tr>
<tr>
<td><strong>Current value:</strong></td>
<td><strong>Current value:</strong></td>
</tr>
<tr>
<td>Market value</td>
<td>Market value</td>
</tr>
<tr>
<td>Replacement cost ►</td>
<td>Assumption price</td>
</tr>
<tr>
<td>Net selling price ►</td>
<td>Cost of release</td>
</tr>
<tr>
<td>Value in use</td>
<td>Cost of fulfillment</td>
</tr>
</tbody>
</table>
CF-2. Measurement Bases for Liabilities

**Historical cost:** Consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

**Market value:** Amount for which a liability could be settled between knowledgeable, willing parties in an arm’s length transaction.
CF-2. Measurement Bases for Liabilities

**Assumption price:** Amount which the entity would rationally be willing to accept in exchange for assuming an existing liability

**Cost of release:** Amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor

**Cost of fulfillment:** Costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner
## CF - Measurement Bases Classification

<table>
<thead>
<tr>
<th>Measurement Basis (Liabilities)</th>
<th>Entry or Exit</th>
<th>Observable?</th>
<th>Entity Specific?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical cost</td>
<td>Entry</td>
<td>Generally, yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Market value in open, active and orderly market</td>
<td>Entry and exit</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Market value in inactive market</td>
<td>Exit</td>
<td>Depends</td>
<td>Depends</td>
</tr>
<tr>
<td>Cost of fulfillment</td>
<td>Exit</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Cost of release</td>
<td>Exit</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Assumption price</td>
<td>Entry</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
5. Education Session: Measurement of Liabilities

- ED XX: Liabilities shall be measured on initial recognition at:
  - Consideration received to assume the obligations at the time the liabilities are incurred,

Except where another IPSAS requires measurement at:
  - Cost of fulfillment; or
  - Fair value

- Cost of fulfillment: Costs that entity will incur in fulfilling the obligations assuming that it does so in the least costly manner

- Provisions measured at “the best estimate of the expenditure required to settle the present obligation at the reporting date”
- “Best estimate” applies to both initial and subsequent measurement
- Subsequent measurement:
  - Adjust for changes to the best estimate
  - Present value adjustments (if effect of time value of money is material)
- IPSAS 19 does not refer to CF’s measurement bases
5. Measurement of Liabilities: Employee benefits

IPSAS 39, Employee Benefits:

• Short-term

• Long-term:
  – Post-employment Benefits—Defined Contribution Plans
  – Post-employment Benefits—Defined Benefit Plans
  – Other Long-Term Employee Benefits

• Termination benefits
5. Measurement of Liabilities: Employee benefits

IPSAS 39, *Employee Benefits:*

- **Short-term:** Measure at the undiscounted amount of short-term employee benefits expected to be paid (after deducting any amount already paid)
5. Measurement of Liabilities: Employee benefits

IPSAS 39: *Long-term*: Post-employment Benefits

- **Defined Contribution Plans:**
  - Contribution payable in exchange for service during the period, after deducting any amount already paid. (Generally on undiscounted basis.)

- **Defined Benefit Plans:** Determine plan’s deficit (surplus):
  - Make **estimate of cost** using projected unit credit method
  - **Discount** to determine **present value**
  - **Deduct fair value of plan assets** from present value of obligation
  - (If an asset, adjust for effect of limiting to the asset ceiling)
5. Liability measurement: IPSAS 39 Employee benefits

- Other Long-Term Employee Benefits – Same measurement approach as that used for liabilities arising from a defined benefit plan.

- Termination benefits – Classify in terms of other employee benefits and then apply the applicable approach, i.e. apply measurement for:
  - Short-term benefits if short-term benefit
  - Other long-term benefits if settlement expected after 12 months
  - Post-employment benefits if enhancements to post-employment benefit
5. Measurement of Liabilities: Employee benefits

IPSAS 39, *Employee Benefits*:

- Note that each approach applies to both initial and subsequent measurement
- Subsequent measurement:
  - Any value changes arise from re-application of the same approach
  - Present value adjustments (if approach involves discounting to a present value)
- IPSAS 39 does not refer to CF’s measurement bases
5. Measurement of Liabilities: Questions to consider

- Should subsequent measurement be same as liabilities’ initial measurement?
- If yes, which ED XX measurement basis should apply subsequently? (Consideration received to assume liability, cost of fulfillment or fair value?)
- If no, what other Conceptual Framework measurement bases should apply instead?
- Other issues to consider when reviewing liability measurement in IPSAS?
5. Measurement of Liabilities: Factors to Consider

- Financial or non-financial?
- Short-term or long-term?
- Involves future cash flows or future provision of services?
- Public sector specifics (e.g. social benefits) or basically the same or similar to private sector situations? (IFRS alignment)
- Any issues arising from GFS reporting guidelines? (Reduction of unnecessary differences between IPSAS and GFS reporting guidelines)
For Information—no decision
This topic is provided as an information and discussion session