Agenda Item 8 Public Sector Measurement

David Watkins and Gwenda Jensen

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Overview

• Education session (8.2.1 and PPT presentation)
• Issue 1, Options for approach (8.2.2)
• Issue 2, Measurement of liabilities (8.2.3)
• Issue 3, Transaction costs, borrowing costs (8.2.4)
Issue 1, Options (8.2.2)

- What are your views on:
  - Options to address public sector measurement in IPSAS;
  - How to identify when:
    - A public sector specific measurement approach is needed, or
    - IFRS 13 may be applicable for IPSAS measurement?
A. Public sector specific IPSAS (little or no reference to IFRS 13)
B. Hybrid IPSAS — applies Conceptual Framework (subsection on areas where IFRS 13 approach applicable)
C. Hybrid IPSAS based on IFRS 13’s measurement approach (subsection on public sector specific measurement)
D. Converged IPSAS — equivalent to IFRS 13, *Fair Value Measurement*
Issue 1, Four Options

A. IPSAS

B. IPSAS (IFRS)

C. IFRS (IPSAS)

D. IFRS
Issue 1, Task Force recommends Option B

- Task Force recommends Option B: Hybrid IPSAS — applies Conceptual Framework (subsection on areas where IFRS 13 approach applicable)
- Agenda item 8.3.1. outlines advantages and disadvantages of each option
Issue 1: Review of IPSAS: Factors to consider

• Public sector specific measurement:
  – IPSAS adjusted to address public sector specific issues?
  – Public sector specific IPSAS or situation?
  – Occurrence of public sector specific assets and liabilities?

• Possible scope to apply IFRS 13 fair value approach:
  – Extent of convergence with equivalent IFRSs?
Issue 1: IPSASB is asked to:

• Confirm that:
  – The main options have been identified; and
  – Option B is the option that should be developed

• Provide views on factors to identify when either:
  – Public sector specific measurement approach is appropriate; or
  – IFRS 13’s approach may be applicable
Issue 2: Measurement of liabilities (8.2.3)

1. What public sector specific issues need to be addressed?
2. Where should a public sector specific approach be used?
3. When could an IFRS 13 approach to liability measurement be appropriate?
Issue 2: Public Sector Specific IPSASs

- IPSAS 23, *Revenue from Non-Exchange Transactions*
- IPSAS 32, *Service Concession Arrangements: Grantor*
- IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*
- IPSAS 40, *Combinations*
Issue 2: IFRS Converged IPSASs

IPSAS 13, Leases

IPSAS 19, Provisions and Contingencies

IPSAS 29, Financial Instruments: Recognition and Measurement

IPSAS 35, Consolidated Financial Statements

IPSAS 37, Joint Arrangements

IPSAS 39 Employee Benefits
General points, including application of the Conceptual Framework

Use of market values: Extent to which market values should be used, including current interest rates as discount rates for long-term liabilities

Guidance on discount rates: How to identify appropriate discount rates and address negative discount rates when measuring liabilities

Management intention: What significance for liability measurement?

Cost-benefits: Need flexibility to apply other approach when cost of fair value measurement outweighs benefits
Issue 2: IPSASB is asked to provide direction on:

1. Public sector specific liability measurement issues that this project should address

2. IPSASs, situations or types of liability where:
   - A public sector measurement approach is needed; or
   - An IFRS 13 approach to measurement could be applicable
Issue 3: Transaction costs, borrowing costs (8.2.4)

- Do you agree that IPSASs could be improved by:
  - Clarifying the treatment of transaction costs, without changing established accounting treatment; and
  - Removal of option inIPSAS 5, Borrowing Costs, to capitalize certain borrowing costs?
Issue 3: Asset Measurement (Valuation) Generally

- Financial reporting uses mixture of historical cost and current values to measure assets
- Valuers refer to the applicable financial reporting standard
- Government finance statistics prefer current market prices
Issue 3: Application of a Measurement Basis (MB)

- Application of measurement basis, e.g. for historical cost:
  - Accounting unit?
  - What costs should be capitalized (initial measurement)?
  - Depreciation/amortization): Methods, useful life, residual value, etc.?
- Conceptual Framework (CF) does not address application of a measurement basis
Issue 3: Capitalization of Costs

• Cost capitalization either a recognition or measurement issue
• IPSAS treatment:
  – *Historical cost*: Capitalize directly attributable costs. (Transaction costs are directly attributable, while borrowing costs open to debate)
  – *Current values*: Depends; e.g. replacement cost—yes (?), value in use—no
Issue 3: Capitalization of Costs

- Application of Conceptual Framework principles:
  - *Measurement objective*: Do these costs have economic benefits/service potential? If so, capitalization would support achievement of measurement objective.
  - *Qualitative characteristics*: Clear, consistent treatment for such costs will support information that achieves the QCs.
Issue 3: IVS Treatment of transaction costs

- Most bases of value represent estimated exchange price without regard to transaction costs
- Cost approach:
  - Should capture all costs of typical participant
  - Includes transaction costs in illustrative list of costs
  - Valuer would refer to applicable purpose/financial reporting standard to decide whether to include transaction costs
Issue 3: IVS—Treatment of borrowing costs

- Generally value of asset is independent of how financed (so exclude borrowing costs)
- Cost approach:
  - Includes “finance costs” (e.g. borrowing costs) in illustrative list of costs
  - Valuer would refer to applicable purpose/financial reporting standard to decide whether to include borrowing costs
Issue 3: GFS reporting guidelines

• Transaction costs: Sometimes capitalized
  – Called “costs of ownership transfer”
  – Included in cost of acquisition (capitalized) for nonfinancial assets
  – Expensed for financial assets and liabilities
• Borrowing costs: Expensed
Issue 3: Staff recommendations

- **Transaction costs:**
  - No fundamental reconsideration and change
  - Improve clarity of present IPSAS treatment

- **Borrowing costs:**
  - Remove capitalization of borrowing costs option in IPSAS 5
  - *Basis for change:* An improvement to better achieve qualitative characteristics (e.g. comparability and understandability)
Issue 3: IPSASB asked to provide direction on:

- Whether staff should draft IPSAS amendments to address:
  a) Clarification of treatment of transaction costs across IPSASs, without changing the present accounting treatment; and
  b) Removal of the option to capitalize certain borrowing costs in IPSAS 5, Borrowing Costs
1. Draft first chapters of consultation paper
2. Develop proposals on IPSAS impacts:
   – Public sector specific measurement areas; and
   – Scope to apply IFRS 13, *Fair Value Measurement*
3. Draft revision to IPSAS 5, *Borrowing Costs*