



# Agenda Item 8: Public Sector Measurement

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IPSASB Meeting

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Toronto, Canada

# Overview

1. IPSAS *Measurement* – A Project Overview
2. Fair value- IFRS 13, *Fair Value Measurement*, text
3. Exposure draft (ED), *Measurement*
4. Consultation paper (CP), *Public Sector Measurement*

# Introduction

- Project management:
  - Instructions (agenda paper 8.1.1)
  - Decisions (agenda paper 8.1.2)
  - Project road map (agenda paper 8.1.3)

# 1. IPSAS *Measurement* – A Project Overview

Does the IPSASB:

- Agree that individual IPSASs should provide guidance on which measurement bases should be used and IPSAS, *Measurement*, should provide guidance on what the measurement bases mean and how to apply them (paragraph 9)?
- Then agree that the Exposure Draft and Consultation Paper contents should be revised as set out in paragraphs 10 and 11?

# 1. A Project Overview: Paragraph 9 - recommended approach

Which: Individual IPSASs will say which measurement basis should be used and what disclosures should be made;

What: IPSAS *Measurement* will define what each measurement basis means, with explanatory material in the core text;

How: IPSAS *Measurement* will provide Application Guidance on how to derive the measurement; and

Why: IPSAS *Measurement* Basis for Conclusions will provide the rationale for why the IPSASB has reached its decisions.

*Effect of this approach*: Remove all material on the ‘what’ and the ‘how’ from individual IPSASs (through mechanism of the second ED referred to in 8(a))

# 1. A Project Overview: Paragraph 10 – Recommendation for *ED's content*

*Core text:* Definitions of measurement bases and explanatory text. State that individual IPSASs contain requirements for which basis to use.

*Appendices with application guidance:* On fair value and (for example):

- (depreciated) replacement cost (several examples of specialized assets were cited – including infrastructure assets, military assets and heritage assets)
- initial recognition and measurement where no historical information is held
- cost of fulfillment (for liabilities)

*Basis for Conclusions*

# 1. A Project Overview: Paragraph 11 – Recommendation for *CP's content*

- a) Explanation of approach to project and rationale for material in the ED
- b) Initial flowcharts for measurement of assets (liabilities)
- c) Table summary of planned application guidance (source/ type)
- d) Seek constituents' views on planned application guidance
- e) General discussion of potential impacts/changes to individual IPSASs
- f) Comparison table with IVSC and GFS guidance
- g) Discussion of accounting for transaction costs and borrowing costs
  - Preliminary views will be provided where appropriate

## Decision Required

- The IPSASB is invited to agree with the recommendations in paragraphs 9, 10 and 11.



## 2. Fair value—IFRS 13, *Fair Value Measurement*



Project Management and Project Development

Step one – Terminology and formatting changes (Appendix C)

Step two – Retain FV guidance necessary for IPSAS 41 (Appendix A)

Step three – Retain FV guidance necessary for IPSAS 16 (Appendix B)

## 2. Task Force Process (Appendix D)

### Step One

- Make public sector terminology / formatting changes

### Step Three

- Retain fair value guidance necessary for IPSAS 16

### Step Two

- Retain fair value guidance necessary for IPSAS 41

### Task Force Teleconference

- Review material and provide recommendation

## 2. Step one – Terminology and formatting changes (Appendix C) (1/3)

### Public Sector Terminology Changes

IFRS 13	IPSAS ED
profit or loss	surplus or deficit
other comprehensive income	net assets/equity
LIBOR	interbank offered rate
reliable	faithfully representative
business	operation
IFRS	IPSAS
business combination	public sector combination

## 2. Step one – Terminology and formatting changes (Appendix C) (2/3)

### Public Sector Formatting Changes

IFRS	IPSAS
eg / ie	e.g., / i.e.,
lower case for sub-bullets	upper case for sub-bullets
British spelling	American spelling
references to other IFRSs	references to other IPSASs
definitions as an appendix	definitions in core text

## 2. Step one – Terminology and formatting changes (Appendix C) (3/3)

### Task Force Recommendation

- Apply terminology changes as noted in the marked-up document;
- Apply formatting changes as noted in the marked-up document.

### Matter for Consideration

*Does the IPSASB agree with the Task Force Recommendation?*

## 2. Step two – Retain FV guidance necessary for IPSAS 41 (Appendix A) (1/2)

**Issue** – *what fair value guidance from IFRS 13 is necessary to be retained to support the measurement of financial instruments within the scope of IPSAS 41*

### Task Force Recommendation

- All IFRS 13 guidance, except for paragraphs 23-29 and AG3, is recommended to be retained to support fair value measurement for financial instruments within the scope of IPSAS 41;
- The analysis performed by the Task Force represents a first step. The Measurement Task Force will need to step back and consider how the fair value guidance is incorporated into the IPSASs from a holistic and consistency perspective.

## 2. Step two – Retain FV guidance necessary for IPSAS 41 (Appendix A) (2/2)

### **Matter for Consideration**

*Does the IPSASB agree with the Task Force Recommendation?*

## 2. Step three – Retain FV guidance necessary for IPSAS 16 (Appendix B) (1/2)

**Issue** – *what fair value guidance from IFRS 13 is necessary to be retained to support the measurement of investment property within the scope of IPSAS 16*

### Highest and best use (23-26)

Considers a market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling to another market participant who would use the asset in its highest and best use

and

### Valuation Premise for non-financial assets (27-29 and AG3)

The highest and best use of a non-financial asset is based on its use either:

- In combination with other assets as a group or in combination with other assets and liabilities; or
- On a stand-alone basis.



## 2. Step three – Retain FV guidance necessary for IPSAS 16 (Appendix B) (2/2)

### Staff Recommendation

- The staff recommendation is that fair value measurement guidance for non-financial assets in paragraphs 23-29 and AG3 should be retained to support the application of fair value measurement for non-financial items held for financial capacity.

### Matter for Consideration

*Does the IPSASB agree with the Staff Recommendation?*

## 3. ED *Measurement*

- What are the IPSASB's views on:
  - The structure and indicative content in ED, *Measurement*, (agenda paper 8.3.1 – from page 55); and
  - Application guidance for inclusion in the appendices to ED, *Measurement*?

### 3. ED *Measurement*: Core text

- Objective - same as in June
- Scope - paragraph 2 same as in June. Paragraphs 3-5 are new, modelled on IFRS 13's scope paragraphs, allowing for many measurement bases
- Definitions (paragraph 6) - shorter list than in June. Includes:
  - Definitions for all measurement bases in Conceptual Framework; and
  - All terms defined in IFRS 13, *Fair Value Measurement*
- Paragraphs 7, 8 and 12-15 are placeholders for explanatory text about the measurement bases. (Type of text to be determined.)
- Paragraphs 9 – 11 include explanatory text for fair value.

### 3. ED *Measurement*: Core text (continued)

- Paragraph 16 of the ED aims to convey that “Individual IPSASs contain requirements for which measurement basis to use,”
  - Modelled on IFRS 13’s approach (see IFRS 13’s scope paragraphs), revised to allow for multiple measurement bases.
  - ED presently has the same idea in two places - (1) ED’s scope section and (2) this paragraph: Which place is better?
- Deleted - old heading for “Disclosures in respect of measurement”

## 3. ED *Measurement*: Application guidance appendices

- Appendices in ED, *Measurement*, illustrate the Project Overview paper's approach
- Paragraphs in original IPSAS will be deleted, if text is moved from that IPSAS (e.g. from IPSAS 17 or IPSAS 19) into an ED, *Measurement*, appendix
- Development of appendices: See paragraph 15 of 8.2.3 for next steps

### 3. ED *Measurement* – Development of appendices

Paragraph 15 - for December, Task Force and staff propose to:

- a) Refine text in ED's appendices include other relevant material
- b) Identify measurement problems associated with each measurement basis and where application guidance is needed
- c) Recommend whether application guidance be developed for all or only some of the measurement bases in the Conceptual Framework
- d) Recommend whether the application guidance belongs in ED, *Measurement*, or is better placed in a particular IPSAS

### 3. ED *Measurement*: Basis for Conclusions

- *Removed text* that is not consistent with the Project Overview recommendations
- *New paragraphs*: A discussion of the historical cost and revaluation models has been added, as requested in June
- *Unchanged – shaded*: Paragraphs BC1 – BC13 and BC16-BC18 shaded because text is same as for June IPSASB meeting

## Decision Required

- The IPSASB is asked to
  - Note the change to the content and style of the ED, based on the recommendations in the Project Overview; and
  - Agree the approach for the December meeting as outlined in paragraph 15.



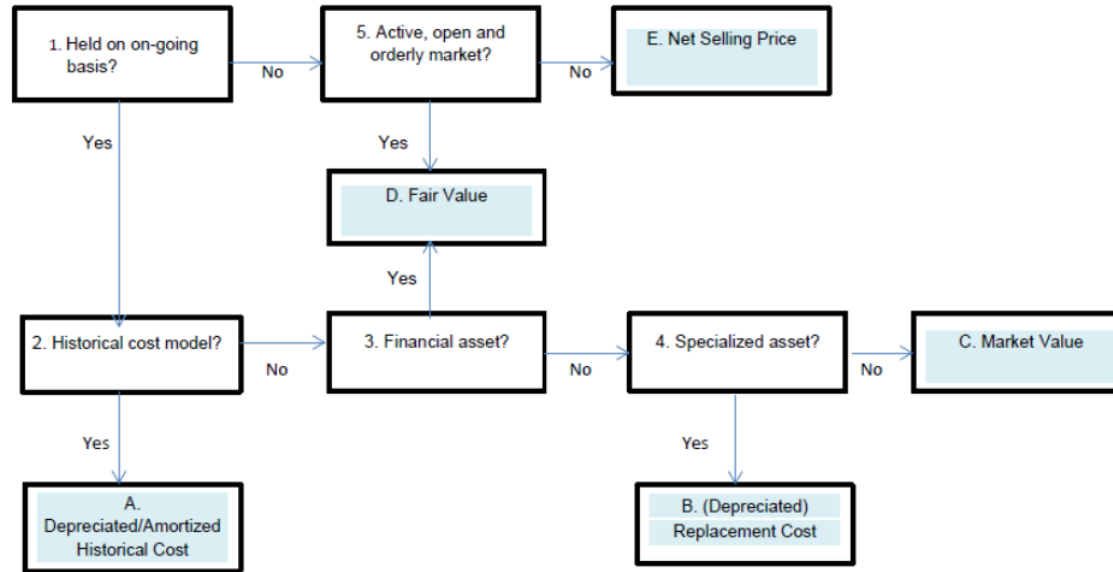
## 4. CP, *Public Sector Measurement*

What are IPSASB's views on indicative content in Chapters 1-6 of the draft CP (agenda paper 8.3.1, from page 28)?

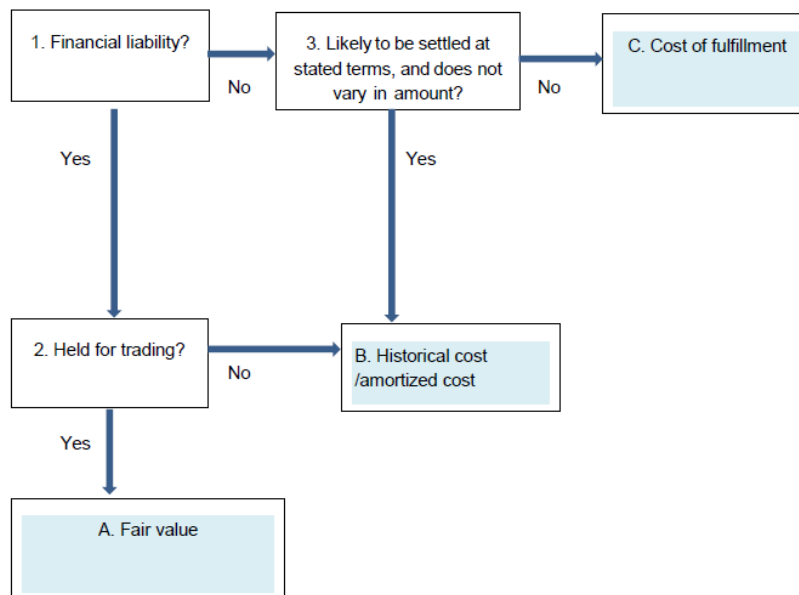
## 4. CP, *Public Sector Measurement*

- CP revised to reflect Project Overview approach (Table 1 in 8.2.4 has a summary of the revisions)
- More revision may be needed given IPSASB's September decisions
- Flow charts for selection of measurement bases
  - Chapter 4 has assets flow chart - revised for IPSASB's June comments and with explanations for decisions points
  - Chapter 5 has liabilities flow chart - for IPSASB's first review
  - Flow charts are one input for IPSASB's review of measurement in extant IPSASs. Not to be used in a rigid, inflexible way

# 4. Assets Flow Chart - Chapter 4, Diagram 4.1



# 4. Liabilities Flow Chart – Chapter 5, Diagram 5.1



## Decision Required

- The IPSASB is asked to:
  - Note the changes to the CP's structure;
  - Approve the text in Chapters 1-6 of the CP; and
  - Approve the two flow charts for subsequent measurement of:
    - Assets (see Diagram 4.1); and
    - Liabilities (see Diagram 5.1).

# Project - Decisions and Next Steps

- Summary of:
  - Decisions
  - Instructions
  - Next steps