International Public Sector Accounting Standards Board®

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 6**	For:
Meeting Location:	Toronto, Canada.		☐ Approval ☒ Discussion ☐ Information
Meeting Date:	December 5–8, 2017		

Public Sector Measurement

Project summary	Project will: revise IPSAS requirements for measurement and measurement-related disclosure; provide guidance on measurement; and, address the treatment of transaction costs, including borrowing costs, for measurement.	
	Topic	***Agenda Item***
Project management	Instructions—Up to December 2017 meeting	6.1.1
	Decisions—Up to December 2017 meeting	6.1.2
	Project roadmap	6.1.3
Decisions required at this meeting	Outline of Exposure Draft and Consultation Paper, and revised Project Roadmap	6.2.1
	Approach to reviewing IPSAS for Public Sector Measurement Requirements and Fair Value	6.2.2
	Public Sector Measurement—Contextual Paper	6.2.3
Supporting items	Outline Exposure Draft	6.3.1
	Outline Consultation Paper	6.3.2
	Work on discount rates	6.3.3
	Public Sector Measurement	6.3.4

IPSASB Instructions—Up to December 2017 meeting and earlier

Meeting	Instructions	Actions
Sept 2017	1. Develop a hybrid IPSAS that applies the Conceptual Framework to public sector specific (PSS) measurement issues and has a section on application of IFRS 13's approach to fair value (Option B) 2. Develop an outline of the CP 3. Develop a description of public sector specific (PSS) measurement issues 4. Develop proposals for when either a PSS measurement approach is needed or where an IFRS 13 fair value measurement approach could apply 5. Consider the boundary between IPSAS, *Measurement*, and individual IPSASs 6. Test responses to CP, *Heritage*, against the PS Measurement approach	1. In progress 2. Done 3. Done 4. Done 5. Done. See ED outline 6. Conditional on approach decision
June 2017	1. Consider convergence with IFRS, particularly scope to incorporate an IFRS 13, *Fair Value Measurement,* approach into IPSAS 2. Apply the Conceptual Framework's measurement objective to the treatment of transaction costs 3. For September 2017 IPSASB meeting: a) Bring back the transaction costs and borrowing costs issues as part of a more general discussion of asset valuation for the IPSASB's consideration; b) Provide an education session on IFRS 13 and its post-implementation review; and c) Discuss ways to address fair value in IPSAS, in the context of the Conceptual Framework's approach to current value measurement and IFRS 13's approach.	1. Done 2. Done 3 (a) Done 3 (b) Done 3 (c) Done

Meeting	**Instructions**	**Actions**
March 2017	1. Revise project brief and create project page 2. Develop a questionnaire for IPSASB/Technical Adviser/Observers' input on the project's scope 3. Identify project work streams 4 Provide education session on the IASB's post implementation review of IFRS 13 in September 5. Log information on how other IPSASB projects relate to the Public Sector Measurement project	1. Done 2. Done 3. Done 4 Done 5 Done
September 2015 to December 2016	Project awaits start. First discussion in March 2017	Done
June 2015	Revise project brief for IPSASB revisions.	Done

IPSASB Decisions—Up to December 2017 meeting

Meeting	Decisions
September 2017	1. The CP will "wrap around" an ED 2. IPSAS, *Measurement*, should be a hybrid IPSAS that applies the Conceptual Framework to public sector specific (PSS) measurement issues and has a section on application of IFRS 13 fair value 3. The capitalization of borrowing costs issue will be included in the CP 4. The Public Sector Measurement project will address measurement of heritage and infrastructure assets through additional Application Guidance in IPSAS, *Measurement*
June 2017	Work on measurement guidance and disclosures in IPSAS will occur after work on measurement bases
March 2017	Approved revisions to the project brief
September 2015 to December 2016	No decisions as project awaits start. First discussion will be in March 2017.
June 2015	Approved the "Public Sector Measurement" project brief

Public Sector Measurement Project Roadmap

Meeting	Completed Discussions/ Planned Discussions:
March 2017	1. Introduction to the project. 2. Project objectives and timetable. 3. Revised project brief.
June 2017	1. Preliminary analysis of IPSAS measurement requirements, including treatment of transaction costs.
September 2017	1. Education session on Measurement in the Conceptual Framework, IFRS 13, Fair Value Measurement, Government Finance Statistics (GFS) reporting guidelines and International Valuation Standards (IVS). 2. Options for broad approach. 3. Valuation, transaction costs and borrowing costs. 4. Issues raised by IPSAS measurement of liabilities.
December 2017	1. Approval of outline of draft Consultation Paper (CP) and Exposure Draft (ED) and revisions to the Project Roadmap. 2. Public Sector Measurement – contextual paper. 3. The approach to reviewing IPSASs for public sector measurement requirements and fair value references, including examples.
Indicative	*Indicative*
March 2018	1. Approval of draft ED sections (and any related CP material) on Objective, Scope, Definitions, Transaction and Borrowing Costs, and Measurement on Initial Recognition.
June 2018	1. Approval of draft ED sections (and any related CP material) on Subsequent Measurement.
September 2018	1. Approval of draft ED sections (and any related CP material) on Measurement on Derecognition, and Disclosures in respect of Measurement. 2. Consideration of links with Infrastructure and Heritage projects in terms of Application Guidance and Amendments to Other IPSASs.

Meeting	Completed Discussions/ Planned Discussions:	
December 2018	1. Decision on consultation methodology (Route 1 or Route 2). 2. Approval of any Application Guidance or outline Amendments to Other IPSASs available by December 2018. 3. Approve the CP/ED for issuance.	
Mid-January to mid-May 2019	1. Consultation Period	
March 2019	1. Consider further Application Guidance if available. 2. Consider further Amendments to Other IPSASs if available.	
June 2019	1. Initial review of responses to consultation. 2. Discussion of issues raised by constituents. 3. Consider further Application Guidance if available. 4. Consider further Amendments to Other IPSASs if available.	
	Route 1	**Route 2**
September 2019	1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement.	1. Discussion of issues raised by constituents. 2. Application Guidance and Amendments (as for June 2019).
December 2019	1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement	1. Application Guidance and Amendment Consider 2nd ED addressing issues raised by constituents and containing Application Guidance and Amendments to Other ISPAS.
March 2020	1. Approve IPSAS on Public Sector Measurement. 2. Consider consequential amendments in respect of Application Guidance and Amendments.	2. Consider 2nd ED addressing issues raised by constituents and containing Application Guidance and Amendments to Other ISPAS.
June 2020	1. Consider consequential amendments in respect of Application Guidance and Amendments.	1. Approve 2nd ED.
Mid-July to mid-November 2020		1. Consultation Period.

Meeting	Completed Discussions/ Planned Discussions:	
September 2020	1. Approve ED on consequential amendments in respect of Application Guidance and Amendments.	1. Review of responses to consultation. 2. Discussion of issues raised by constituents.
Mid-October 2020 to mid-Feb 2021	1. Consultation Period.	
December 2020		1. Discussion of issues raised by constituents. 2. Review of draft ISPAS on Public Sector Measurement.
March 2021	1. Discussion of issues raised by constituents. 2. Review of draft pronouncement on consequential amendments.	1. Discussion of issues raised by constituents. 2. Review of draft ISPAS on Public Sector Measurement.
June 2021	1. Approve pronouncement on consequential amendments	1. Approve ISPAS on Public Sector Measurement.

Outline Exposure Draft and Consultation Paper, and Revised Project Roadmap

Questions

1. Whether the IPSASB:

   (a) Agrees with the planned content of the Exposure Draft (ED) and supporting Consultation Paper (CP);

   (b) Supports the revised Project Roadmap, subject to decisions later in 2018; and

   (c) Agrees that sufficient material should be available on discount rates to be incorporated into this project within the timespan suggested in the Roadmap.

Detail

1. At the September 2017 meeting, the IPSASB directed staff and the Task Force to develop an outline CP/ED for the December 2017 meeting. The IPSASB directed that the document issued for comment should comprise a relatively complete ED on Public Sector Measurement and a wrap-around CP discussing public sector measurement issues.

2. During the IPSASB's discussion of the draft Strategy and Work Plan for 2019-23, it was agreed that the Task Force should table a paper at the December 2017 meeting that considers whether there is sufficient material currently available from others who are already looking at the issue of Discount Rates that would allow the topic to be covered in the Public Sector Measurement Project. That discussion is included in this Agenda Item (see paragraphs 7 and 8).

The Outline Exposure Draft

3. The outline ED is included as agenda paper 6.3.1. The IPSASB is asked to note the following:

   (a) There are four main sections to the ED: measurement on initial recognition; subsequent measurement; measurement on derecognition; and disclosures in respect of measurement – all sections dealing with both assets and liabilities.

   (b) IFRS 13 *Fair Value Measurement* will be considered as appropriate in each of the four sections.

   (c) Transaction costs and borrowing costs will be considered in the section on measurement on initial recognition and in the section on subsequent measurement of assets.

   (d) A place marker has been placed in the section on subsequent measurement of liabilities for text on the discount rates and negative interest rates (see paragraphs 7 and 8 below).

   (e) Place markers have been included as Appendices A and B for the provision of Application Guidance and Amendments to Other IPSAS (see paragraph 6 below).

   (f) Appendix C to the ED will provide a comparison of the measurement bases in the Conceptual Framework with the requirement of the Government Finance Statistics Manual and International Valuation Standards.

The Outline Consultation Paper

4. The outline CP is included as agenda paper 6.3.2. The IPSASB is asked to note the following:

   (a) The CP will support any material in the ED where a detailed explanation of the IPSASB's thought processes is required and so the two documents will be developed at the same time. The intention is to use the text from the CP to form the Basis for Conclusions in the eventual IPSAS.

(b) IFRS 13 *Fair Value Measurement,* (IFRS 13) will be considered as appropriate in the chapters 4 and 5 (measurement of assets and liabilities respectively).

(c) The CP will include a chapter (chapter 3) on the treatment of transaction costs and borrowing costs, as directed by the IPSASB at the September 2017 meeting. The detailed content of chapters 4 and 5 will be determined as the ED is drafted.

(d) If necessary, there will be a Chapter 6 (Application Guidance for Asset and Liability Measurement) that will consider Application Guidance.

Revised Project Roadmap

5. At its September 2017 meeting, the IPSASB decided that the heritage and infrastructure projects should move forward to develop additional Application Guidance material – in IPSAS 17 for recognition, and in the new Public Sector Measurement IPSAS for measurement. This linkage offers the opportunity to consider alternatives for developing the outputs from the Public Sector Measurement project. The IPSASB is asked to note and comment on the alternatives, but is not asked to make a decision on the approach at this meeting, as this will only be decided in the light of the extent of agreement with, and the nature of the issues raised on, the CP/ED.

<u>Route 1</u>

Throughout 2018, staff would develop and present text for sections of the ED (and CP where appropriate) for the Board's approval, as for Route 1. Detailed Application Guidance and amendments to other IPSAS would be prepared and included in the draft ED where possible, but the approval of the CP/ED in December 2018 would not be delayed if that material were not available.

After the consultation period and consideration of the responses, staff would develop a Public Sector Measurement IPSAS based only on the material already exposed. This IPSAS would be presented to the IPSASB for approval in March 2020.

Staff would continue to work on the remaining detailed Application Guidance and amendments to other IPSAS, with the aim of .issuing a pronouncement to amend IPSAS, including the Public Sector Measurement IPSAS, by June 2021.

<u>Route 2</u>

Throughout 2018, staff would develop and present text for sections of the ED (and CP where appropriate) for the Board's approval as for Route 1. Detailed Application Guidance (for example, in relation to the application of IFRS 13) and amendments to other IPSAS would be prepared and included in the draft ED where possible, but the approval of the CP/ED in December 2018 would not be delayed if that material were not available.

After a four month consultation period and consideration of the responses, a second ED would be prepared that would contain all the material deemed relevant to a Public Sector Measurement IPSAS, including detailed Application Guidance and amendments to other IPSAS. To allow time for all the material to be collated, it is estimated that this ED would only be presented for final approval in March 2020 and extrapolating from that date, a final IPSAS could be approved in March 2021 – which is in line with the Roadmap set out in the June 2017 meeting papers.

Discount Rates and Negative Interest Rates

6. The draft Strategy and Work Plan for 2019-23 notes that the topic of discount rates used in the measurement of long-lived assets and liabilities has been raised as a matter of public interest

concern, particularly in the context of low and negative interest rate environments around the world. Members of the Consultative Advisory Group noted the issue during their discussion of the Public Sector Measurement project in June 2017, and attendees at the Public Sector Standard Setters Forum in July 2017 also raised the issue during sessions on this project.

7. A summary of work on discount rates that has been, or is being, carried out in a few jurisdictions and other organizations is included in agenda paper 6.3.3. Projects being carried out by the Government of Canada and by the European Financial Reporting Advisory Group are expected to reach conclusions in 2018. In the United Kingdom, HM Treasury will seek the approval of the Financial Reporting Advisory Board on a revised approach to setting discount rates in November 2017. It would appear, therefore, that sufficient material could be available to be discussed and incorporated into this project within the timespan suggested in the Roadmap for the second ED in Route 1 (i.e. for approval in June 2020). If this is not the case, then this could be taken forward as the first new project under the new 2019-2023 Work Plan, and then incorporated by way of amendment to the new Public Sector Measurement IPSAS.

Decisions required

1. The IPSASB is asked to:

    (a) Confirm that it is content with the proposed contents of the Exposure Draft and Consultation Paper;

    (b) Note the proposed revisions to the Project Roadmap; and

    (c) Agree that guidance on discount rates should be covered by the Public Sector Measurement project.

2. Review Approach and its Application to IPSASs

Questions

1. Does the IPSASB agree:

    (a) That the Task Force and staff should use the review approach below to identify public sector measurement needs in IPSASs?

    (b) With staff's recommendations on measurement in IPSAS12, *Inventories*, IPSAS 16, *Investment Properties*, and IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets?*

Detail

1. There are twenty-one IPSASs that address measurement requirements. Task Force and staff need direction on the review approach to use on those IPSASs. All recommendations arising from applying this approach will be submitted to the IPSASB for consideration.

2. In September the IPSASB's brief discussion on a recommended review approach:

    (a) Indicated different views on how to review IPSAS measurement, with comments that the "Rules of the Road" should apply;

    (b) Did not consider examples (on liability measurement) that illustrated the approach.

3. Whatever approach is used should efficiently and effectively identify areas where:

    (a) The public sector's special characteristics may affect measurement requirements (so that further Task Force consideration will be needed to develop specific recommendations for the IPSASB's consideration);

    (b) An IFRS 13 approach to fair value appears to be applicable; and

    (c) An existing IPSAS measurement approach is able to continue, because it does not raise new issues of substance in terms of either:

        (i) The public sector's special characteristics and the Conceptual Framework's approach to measurement; or

        (ii) Application of IFRS 13.

Overview of Review Approach

4. The proposed review approach has the following three components:

    (a) Public sector measurement needs override (b) and (c) where necessary, with the Task Force highlighting those areas for IPSASB consideration.

    (b) No change to each IPSAS's "basic measurement rule". (Paragraphs 8-10 provides examples to explain what is meant by "basic measurement rule".)

    (c) For IFRS–converged IPSASs, apply a rebuttable presumption that "fair value" has the same meaning as that in IFRS 13, *Fair Value Measurement*. (Where the IPSASB has introduced the term "fair value" to address a public sector measurement need, this falls under (a) and would require careful consideration. For example, fair value is used in IPSASs as a surrogate for initial cost, where an asset is acquired at no or a nominal cost.)

5. More information on each of these components is provided below.

(1) Public Sector Measurement Needs

6. Where alerted to a public sector measurement need the Task Force will carry out a more in-depth consideration to reach a recommendation, before submitting the issue to the IPSASB.

7. The following sources of information will be used to identify areas for more in-depth consideration:

   (a) The Public Sector Measurement project brief;

   (b) The Conceptual Framework, particularly Chapter 7 on measurement.

   (c) Responses to the Public Sector Measurement questionnaire sent to IPSASB members;

   (d) Heritage and infrastructure measurement issues (raised in IPSASB deliberations, responses to the Heritage CP, and research on infrastructure measurement); and

   (e) Areas where previous IPSASB decisions have either revised an IFRS-converged IPSAS to address a public sector issue or created a public sector specific IPSAS.

(2) No Change to Basic Measurement Rules

8. This component (no change to basic measurement rules) relies on two ideas:

   (a) Measurement in IPSASs is already broadly consistent with the Conceptual Framework's approach to measurement, which allows for both historical cost and current value; and

   (b) The Public Sector Measurement project is not expected to carry out a fundamental rethink of IPSAS measurement.

9. "Basic measurement rules" are the broad measurement requirements established in each IPSAS, putting aside what could be described as "issues of detail". For example, the basic measurement rule for IPSAS 12: *Inventories,* is that inventories shall be measured initially at cost, and then at the lower of cost and net realizable value[1].

10. By contrast, examples of "issues of detail" would include (for example) treatment of transaction costs.

(3) Rebuttable Presumption that Fair Value has IFRS 13 Meaning in IFRS–Converged IPSASs

11. This rebuttable presumption—that fair value can continue to be used in IFRS-converged IPSASs—relies on the IASB's view that IFRS 13 clarified rather than changed the intended meaning of fair value. The education session at the IPSASB's September meeting highlighted that, during development of IFRS 13, the IASB reviewed the use of fair value in all IFRS. The review concluded that the proposed IFRS 13 meaning of fair value does not change the intended meaning, but simply clarify the meaning for all occurrences.

12. However, where the underlying IFRS has been revised for public sector needs, this places the Task Force on alert. More careful consideration would be required. In addition, if other evidence has arisen to indicate that fair value may not be appropriate, that would indicate a more in-depth review. In brief, when considering the applicability of fair value:

   (a) Identify for special consideration areas where an IPSAS has been revised to introduce "fair value" in places where it is absent in IFRS; and

   (b) Otherwise apply a rebuttable presumption that fair value can continue to be used, relying on the IASB's view that IFRS 13 clarified rather than changed the intended meaning of fair value.

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[1] See paragraph 15 of IPSAS 12.

Rules of the Road, this Review Approach and ED, Public Sector Measurement

13. This review approach relies on the IPSASB's previous considerations, when developing its existing set of IPSASs. It relies on previous IPSASB decisions on whether a particular topic should be addressed through either:

    (a) Adaptation of an existing IFRS, or

    (b) Development of a public sector specific IPSAS.

14. The basic measurement rules in current IPSASs already reflect application of the *Rules of the Road*. This review approach proposes that those rules should not change, which would maintain the same level of IFRS-convergence that the IPSASB had previously put in place.

15. Furthermore, this review approach reflects IPSASB comments that the Public Sector Measurement project does not involve a fundamental rethink of IPSAS measurement, but has the rationale of ensuring consistency with measurement in the Conceptual Framework.

16. The ED outline in agenda paper 6.2.1 takes a "top-down" approach to public sector measurement. This review approach is a "bottom-up" approach to IPSAS measurement issues. Therefore, this review approach may need to be revised to align it with the thinking that underpins the ED outline.

Examples–IPSAS 12, IPSAS 16 and IPSAS 19

17. This section explains application of the review approach to three IFRS-converged IPSAS; IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, and IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*[2].

Public Sector Specific Measurement Needs—Examples

18. Compared to the original IFRS, measurement in IPSAS 12 and IPSAS 16 has been revised to address measurement issues arising from non-exchange transactions. These changes would need to be carefully considered. When the IPSASB developed IPSAS 12 and IPSAS 16 it made the following revisions to the underlying IFRSs, to address public sector measurement needs:

    (a) Asset acquisition–initial measurement:

        (i) IPSAS 12 requires that where inventories are acquired through a non-exchange transaction, their cost is their *fair value* as at the date of acquisition.

        (ii) IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its *fair value* as at the date of acquisition. (By contrast, IAS 40 requires investment property to be initially measured at cost.)

    (b) Subsequent measurement:

        (i) IPSAS 12 requires that where inventories are provided at no charge or for a nominal charge, they are to be valued at the *lower of cost and current replacement cost*.

19. IPSAS 19 has changes that impact on scope and recognition, none that affect measurement.

20. Treatment of transaction costs, borrowing costs and discount rates are further relevant public sector measurement issues, identified through the project brief and other comments.

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[2] IPSAS 12, *Inventories*, is based on IAS 2, *Inventories.* IPSAS 16 is based on IAS 40, *Investment Property*. IPSAS 19 is based on IAS 37.

Basic Measurement Rules—Examples

21. The basic measurement rules for these IPSASs are:

    (a) *IPSAS 12*: Inventories shall be measured initially at cost, and then at the lower of cost and net realizable value[3].

    (b) *IPSAS 16*: Investment property shall be measured initially at its cost[4]. For subsequent measurement an entity shall choose either

        (i) The fair value model, whereby all investment property is measured at fair value; or

        (ii) The cost model, whereby IPSAS 17's cost model measurement requirements apply.

    (c) *IPSAS 19*: The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date[5].

22. If the IPSASB agrees that this project does not introduce a fundamental rethink of IPSAS measurement, it should be possible to confirm that these basic measurement rules do not require reconsideration and revision.

Rebuttable Presumption that Fair Value has IFRS 13 Meaning—Examples

23. As noted in paragraph 18 above, the term "fair value" has been inserted into IPSAS 12 and IPSAS 16 to address initial measurement, when assets are received at no or a nominal cost. This will require careful consideration to determine whether the term "fair value" should be replaced by another measurement term or some other revision is needed. If another measurement term is used its definition, measurement techniques and any necessary application guidance would be provided in IPSAS, *Public Sector Measurement*.

24. IPSAS 12 measurement does not refer to fair value, other than the reference discussed in paragraph 23 above and a reference to inventory that was valued initially through application of IPSAS 27, *Agriculture*. Therefore, no application of the rebuttable presumption is necessary.

25. IPSAS 16 includes an option for entities to measure subsequently using a "fair value model". Applying the rebuttable assumption, the references to fair value in the Standard's description of this model are assumed to have the IFRS 13's meaning for fair value, unless evidence exists to indicate otherwise. Therefore, the term fair value can continue to be used and linked to an IFRS 13 fair value meaning, set out in IPSAS, *Public Sector Measurement*.

26. In IPSAS 19, the only reference to fair value is in the implementation guidance, (an example on measurement of a "single guarantee") and IFRS 13's fair value appears to be applicable.

Decisions required

1. The IPSASB is asked to confirm that the review approach should be used to identify:

    (a) Where public sector specific measurement needs arise in IPSASs; and

    (b) Where the IFRS 13 meaning for "fair value" should continue to apply in IPSASs,

    To develop recommendations on revisions to IPSASs for the IPSASB's consideration.

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[3] See paragraph 15 of IPSAS 12.

[4] See paragraphs 26 of IPSAS 16.

[5] Paragraphs 44—96 if IPSAS 19 address the measurement of provisions. Paragraph 44 states that the amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

3. Public Sector Measurement and the Conceptual Framework

Question

1. What are the IPSASB's views on agenda paper 6.3.4's description of public sector measurement?

Detail

1. Agenda paper 6.3.4 was prompted by several project-related developments, including:
   (a) The Task Force Chair's request that staff focus on "public sector measurement" rather than "public sector specific measurement";
   (b) The IPSASB's September session on the Conceptual Framework's coverage of measurement, which included consideration of whether it is possible to claim consistency between the Conceptual Framework and IFRS 13's approach to measurement;
   (c) Task Force discussions on measurement of service potential, leading to the issue of how measurement for the financial statements differs from measurement in other GPFRs; and
   (d) Responses to the Heritage CP, which have identified measurement for other reports, including measurement of heritage significance.

Focus on Measurement of Assets and Liabilities in the Financial Statements

2. The Public Sector Measurement project focuses on measurement for the financial statements. It does not address measurement for other GPFRs, such as budget-actual and fiscal sustainability reports. However, understanding the broader measurement context helps to resolve measurement problems that are within the scope of this project.

Measurement in the Conceptual Framework—Driver and Constraint

3. The Conceptual Framework is both a driver and constraint for this project's identification of:
   (a) Improvements to IPSASs' present coverage of measurement; and
   (b) Areas where the IFRS 13 meaning for "fair value" can continue to be used.
4. Therefore, agenda paper 6.3.4 identifies the measurement issues that Chapter 7 addresses, and areas that Chapter 7 leaves open, building on the education session in September. It then provides an overview of IPSAS measurement. The overview focuses on IPSAS measurement to the extent that it could be inconsistent with Chapter 7, given its coverage of measurement.
5. Some of the context in this paper may be useful for development of the ED. Agenda paper 6.3.1 explains that the CP's content will reflect the IPSASB's thinking for the ED. Therefore it is too early to decide whether this material will be included in the CP.

No decisions

The IPSASB is asked to note the context provided in agenda paper 6.3.4.

Exposure Draft on Public Sector Measurement – Outline

- Request for comments
- Objective
- Scope
  - Assets
  - Liabilities
- Definitions
- Measurement on initial recognition
  - How to determine historical cost
  - Treatment of transaction costs
  - Treatment of borrowing costs
- Subsequent measurement
  - Historical cost
  - Revaluation model
    - Entry and exit values
    - Approach to valuation of assets
      - Fair value (IFRS 13)
      - Market value
      - Replacement cost
      - Value in use
      - Use of professional valuers
      - Indexation
      - Depreciated historical cost as a proxy for value in use
      - Treatment of transaction costs
      - Treatment of borrowing costs
    - Approach to valuation of liabilities
      - Cost of fulfilment
      - Market value
      - Assumption price
      - [Discount rate to use for public sector measurement]*
      - [Discounting using negative interest rates]*
  - Depreciation and amortization of assets
  - Impairments
- Measurement on derecognition
  - Assets
    - Fair value (IFRS 13)
    - Market value in an active market
    - Proxy for market value in an inactive market
    - Net selling price
    - Treatment of transaction costs

Treatment of borrowing costs

Liabilities

Cost of release

Disclosures in respect of measurement

Effective Date

Appendix A: Application guidance

Appendix B: Amendments to other IPSASs

Appendix C: Comparison of measurement bases with GFS and with IVSC standards

Appendix D: IFRS 13 hierarchy

Basis for Conclusions

* Placeholder / indicative position for discount rates material, subject to progress made.

Consultation Paper on Public Sector Measurement – Outline

Chapter 1 Introduction

- Background to the CP
- Measurement issues to address
  - Consistency with Conceptual Framework
  - IFRS 13
  - Clarity of requirements in IPSASs
- Scope of coverage
- Structure of CP

Chapter 2 Conceptual Framework and Measurement

- Selection of measurement bases
- Factors to consider when selecting a measurement basis
- Application of measurement bases – issues arising in practice (see appendices A and B)

Chapter 3 Transaction costs and borrowing costs

- Capitalization or expensing
- Treatment under the historical cost and revaluation models
- Treatment at initial and subsequent measurement

Chapter 4 Public sector measurement: assets

- Measurement on initial recognition
- Subsequent measurement
  - Historical cost
  - Revaluation model
  - Depreciation and amortization of assets
- Measurement on derecognition

Chapter 5 Public sector measurement: liabilities

- Measurement on initial recognition
- Subsequent measurement
  - Historical cost
  - Revaluation model
- Measurement on derecognition

[Chapter 6 Application Guidance for Asset and Liability Measurement]*

- [Public sector measurement guidance for cross-cutting issues]
- [Guidance on applying IFRS 13]
- [Application guidance for particular public sector assets (as amendments to other IPSAS)]

Chapter 7 Disclosures for measurement

- Disclosures – based IFRS 13 but extended to address disclosures related to public sector measurement

Appendix A: *Assets: Measurement Bases in each IPSAS*

Appendix B: ***Liabilities: Measurement Bases in each IPSAS***

Appendix C: Draft Exposure Draft ***Public Sector Measurement***

* Placeholder for discussion of Application Guidance if required

Discount Rates: Summary of Work in Other Jurisdictions and Organizations

1. Agenda item 6.3.3 summarizes work that has been, or is being, carried out in a small selection of jurisdictions.

Australia

2. Work on this topic is planned by the Australian Accounting Standards Board, but has not started at the time of writing this paper.

Canada

3. The Canadian Public Sector Accounting Board (PSAB) has approved an Invitation to Comment document on discount rate guidance for determining the accrued benefit obligation in its employment benefits standard. The purpose of this document, which is expected to be published in late November 2017, is to consult stakeholders before PSAB establishes its positions on the issue. The document therefore does not have a proposal, but identifies discount rate options and discusses arguments relating to each of them. PSAB has also discussed whether some blueprint/framework can be developed to ensure discount rate guidance provided in its current and future projects would be consistent. Staff will bring back a paper in December 2017 to provide options.

4. Following *Observations of the Auditor General of Canada on the consolidated financial statements of the Government of Canada for the Year Ended 31 March 2016*, the Government of Canada has undertaken to look at the discount rate methodology being used to measure long-term liabilities. The scope of the project and outcomes was not available at the time of writing this paper; the project is not expected to be concluded until later in 2018.

European Financial Reporting Advisory Group

5. Following a request from the European Financial Reporting Advisory Group (EFRAG) Board to extend the discussion to near-zero interest rates, in July 2015 the EFRAG Technical Expert Group (TEG) debated the scope of a possible project and agreed that, while the near-zero rates do not limit the usefulness of present values, some imperfections in the current IFRS may be exacerbated in that environment and are worth investigating. EFRAG later noted that various IFRS Standards require assets or liabilities to be measured at the present value of the future cash inflows or outflows. Some of these Standards require the discount rate to be updated at each reporting date. Different concerns have been raised about the implication of near-zero and negative discount rates. In April 2017, EFRAG decided to co-sponsor an academic project on discounting in financial reporting together with the Institute of Chartered Accountants of Scotland. The project will be completed in 2018.

International Accounting Standards Board

6. The International Accounting Standards Board (IASB) discussed at its March 2017 meeting the findings from IASB staff's research on discount rates - present value measurements (referred to as the discount rates project). IASB Staff considered the results of their research under four broad headings: reflecting time value of money in current value measurements; present value measurement objectives and elements; level of detail in present value measurement techniques; and presentation and disclosures. They concluded that further work needs to be carried out in all these areas to address unjustified inconsistencies in individual standards.

New Zealand

7. A New Zealand Treasury paper *Public Sector Discount Rates: A Comparison of Alternative Approaches*, published in August 2017, provided a comparison of alternative approaches to the Public Sector Discount Rate, and the assumptions behind the two main ways of thinking about the public sector discount rate, which is an essential component of cost-benefit-analysis supporting public sector investment decision-making. The social opportunity cost of capital approach (SOC) defines the discount rate as the rate of return that a decision‑maker could earn on a hypothetical ‘next best alternative’ to a public investment whereas the social rate of time preference approach (SRTP) defines the discount rate as the rate of return that a decision‑maker requires in order to divert resources from use in the present, to a public investment.

8. New Zealand developed a methodology to support centralized guidance on risk-free discount rates and consumer price index (CPI) assumptions for use in accounting valuations. The original report on this methodology was published in 2010. The methodology determines a short term discount rate based on market evidence, a long term discount rate (where there is a lack of reliable market evidence) based on historical government bond yields and other available data, and a bridging rate to extrapolate from the former to the latter. A *Review of Long Term Assumptions* was carried out in June 2013; a further was carried out in 2016 which led to the publication of *Risk-Free Discount Rates and CPI* [Consumer Price Index]: *Assumptions for Accounting Valuation Purposes* in May 2016.The New Zealand Treasury publishes a table of risk-free discount rates and CPI assumptions that Government reporting entities should use for valuing insurance claims liabilities under PBE IFRS 4 Insurance Contracts; valuing employee benefits such as pension obligations, long service leave and retiring leave under PBE IPSAS 25 Employee Benefits, and building a risk-adjusted discount rate for valuing student loans. These rates may be applied to other valuations where a risk-free discount rate or CPI assumption is used. In these cases the rates may either be used unadjusted, or as a building block to calculate another assumption at the reporting entity's discretion.

United Kingdom

9. In November 2016, the Financial Reporting Advisory Board (FRAB) agreed to a review of the discount rate methodology used by HM Treasury to value liabilities. HM Treasury staff presented a paper to the FRAB in March 2017 that identified as issues to be addressed: negative interest rates; policy discount rates (that is, the use of discount rates by different Ministries in different contexts); the frequency of updating rates; the inflation assumption; unfunded pension schemes. When reporting to the FRAB in June 2017, HM Treasury staff concluded that 'the key requirement is that the discount rate reflects "a risk free market assessment of the time value of money"'; 'while an important perspective, the potential 'exit price' of a provision is not a relevant valuation methodology for public sector provisions'; and 'the solution to a "risk free rate" (or more accurately minimal risk) from an investor perspective is to use a broader spread of investments rather than a specific financial instrument'. HM Treasury staff identified seven options to consider as part of the next stage of the project and will report back to the FRAB in November 2017.

United States of America

10. The Federal Accounting Standards Advisory Board (FASAB) has no plans to review its guidance on discount rates. FASAB issued Statement of Federal Financial Accounting Standards (SFFAS) 33 in October 2008 to clarify the discount rates to be used for calculating liabilities for Pensions, Other Retirement Benefits, and Other Postemployment Benefits. Under SFFAS 33, discount rates as of the reporting date for present value measurements of these liabilities should be based on interest rates on marketable Treasury securities with maturities consistent with the cash flows

being discounted. Loans and loan guarantees (recorded at the net present value of estimated cash flows per SFFAS 2) are discounted at the interest rate of marketable Treasury securities with similar maturity to the cash flows, applicable to the period during which the loans are disbursed or guaranteed. For cash flows that include inflation, such as for fiscal sustainability, attention is also paid to the reasonableness of the real interest rate (that is, the difference between the interest on the Treasury securities held by the trust fund and the inflation rate, as measured by the CPI).

PUBLIC SECTOR MEASUREMENT

Introduction

1. The Public Sector Measurement project's rationale is that the measurement requirements and guidance in many current IPSASs and in on-going projects are not consistent with the Conceptual Framework and should be amended. The project brief focuses on Chapter 7 of the Conceptual Framework, which addresses measurement bases for assets and liabilities in the financial statements.

2. This paper describes public sector measurement beyond that narrow focus, considering both:

   (a) Public sector measurement outside of the financial statements; and

   (b) Other measurement decisions impacting on the financial statements.

3. Consistency with the Conceptual Framework is a primary driver for this project. Therefore, it is important to have a clear understanding of what the Conceptual Framework says about measurement, and what it does not say.

4. This paper covers the following topics:

   (a) Why the availability of other reports to address information needs is an important consideration for measurement of assets and liabilities in the financial statements;

   (b) The Conceptual Framework's coverage of measurement; and

   (c) IPSAS measurement for assets and liabilities in the financial statements—an overview.

Why Other Reports Matter for Financial Statement Measurement

5. The Conceptual Framework does not explicitly discuss measurement for information presented outside of the financial statements. It does not explain how measurement for recognition in the financial statements differs from other types of measurement; its strengths and weaknesses by comparison with other measurement methodologies.

6. This raises a boundary issue, which can be summed up in one question:

   > When are users' information needs more appropriately addressed by presenting information in other reports, outside of the financial statements, with measurement reflecting other needs from those that the financial statements aim to fulfil?

7. This paper explains why this question matters for measurement in the financial statements. It proposes that some perceptions about financial statement measurement inadequacies are the result of an expectation gap, and recommends that the possibility of reporting information in other reports, outside of the financial statements, should be considered, when faced with criticisms that the financial statements are inadequate to convey particular information sets.

8. When faced with challenging topics, for example accounting for infrastructure or heritage, some constituents express their concerns about the *inadequacy* of monetary values presented in the financial statements. They may argue either that:

   (a) No information should be presented in the financial statements, since monetary values for recognition do not adequately address information needs; or

   (b) More information should be presented in the financial statements (e.g. additional note disclosures or supplementary schedules) to address information gaps.

9. But what if the perceived "inadequacy" represents information that the financial statements are not designed to provide? Should financial statement measurement be blamed for a problem that it is not designed to solve? Should the financial statements be treated as the solution to problems that they are not designed to solve?

Symbolic Value and Service Potential

10. This expectation gap can impact on thinking about appropriate measurement bases for recognition. A misunderstanding of what financial statements do well and what they do badly—their design limits, as sources of information—may result in attempts to develop sophisticated approaches to measurement, which attempt to solve problems that go beyond the purpose of financial statement recognition[6].

11. Arguably, this is one factor driving the "symbolic value" debate, where some constituents are concerned that placing a monetary value on a heritage asset (for example, using historical cost or a current value) does not convey the asset's heritage significance. But should the financial statements be expected to communicate heritage significance? Should measurement for the financial statements include methodologies to measure "significance", whether it is the "significance" of heritage or some other type of significance?

12. Similarly, discussions of how to measure "service potential" sometimes imply that this should convey (and track over time) an asset's value to the community or its "social value". However, in the public sector financial reporting context, service potential first and foremost addresses an asset existence question: "Do items that deliver services, without generating cash flows, meet the definition of an asset?"

13. How to measure an asset involves application of a fairly limited set of measurement techniques, which do not attempt to comprehensively convey the "service value" of the asset. Measures of service potential for the financial statements do not attempt to value all the ways that an asset benefits the community that it serves[7].

14. The parallel with the debate over heritage's "symbolic value" should be obvious. An argument that historical cost or market value are inadequate to the task of representing heritage significance, could apply to many other assets in the public sector, replacing "heritage significance" with "community significance". Hospitals save lives. Schools educate our children. Their monetary values (using historical cost or a current value) do not fully convey their importance to the community, their "community significance".

15. But the financial statements do not purport to measure significance. They are intended to provide GPFR users with information that fairly reflects the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes

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6 Note that the Conceptual Framework's objective of measurement is "To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes."

7 To show the contrast, when government policy analysts consider the value of a particular investment (a new hospital, bridge, school, etc.) their consideration of societal benefits might look at factors such as lives saved, expected improvements to well-being, reductions of travel time, and contributions to Gross Domestic Product (GDP).

Relevance to Public Sector Measurement Project

16. The relevance of this boundary issue to the Public Sector Measurement project appears, for example, in the following three measurement issues:

    (a) *Infrastructure issue*: Deferred maintenance as a surrogate for depreciation of infrastructure. (Would other reports do a better job of reporting on the physical state of infrastructure, the extent to which planned maintenance has been deferred, and future investment is needed?)

    (b) *Heritage issue*: Measurement to convey heritage significance. (Would service performance information or other, non-GPFR reports do a better job of providing this type of information?)

    (c) *Service potential issue*: Need to manage expectations that this project will develop new ways to measure service potential, going beyond measurement in Chapter 7 of the Conceptual Framework and/or current IPSASs.

The Conceptual Framework's Coverage of Measurement

Measurement for Recognition in the Financial Statements

17. The Conceptual Framework only explicitly discusses measurement in Chapter 7, *Measurement of Assets and Liabilities in the Financial Statements*. As the title states, Chapter 7 considers measurement of assets and liabilities in the financial statements. Its coverage clearly applies to measurement for recognition in the financial statements. Arguably this chapter also covers selection of measurement bases for subsequent measurement, in those cases where a revaluation is deemed desirable or necessary, and selection of an appropriate measurement bases again becomes an issue[8].

18. Chapter 7 focuses on selection of measurement bases. Its objective of measurement is focused on this particular measurement task, i.e. selection of measurement bases. The objective of measurement is:

    > To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

19. Chapter 7 lists measurement bases that apply when measuring assets and liabilities in the financial statements. It discusses circumstances relevant to the selection of measurement bases.

20. Measurement for recognition of assets and liabilities has a long history, which Chapter 7 of the Conceptual Framework reflects. For example, during the 20th and early 21st century practitioners and academics have extensively debated the relative merits of historical cost and different types of current value for information in the financial statements. Chapter 7 treats this as an important issue to address. It allows that both historical cost and current values can be used for measurement of assets and liabilities.

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8 For example, where an entity's purpose in holding an asset changes from service provision to sale its measurement basis may change, subsequent to its measurement on initial recognition.

Measurement that Chapter 7 does not address

21. Chapter 7 does not provide concepts for measurement in GPFRs other than the financial statements[9]. Nor does it provide concepts applicable to financial statement measurement decisions that go beyond the selection of measurement bases. For example, it does not address concepts to guide the:

    (a) Application of measurement bases; and

    (b) Measurement for disclosures in the notes to the financial statements[10].

22. "Application of measurement bases" means, in this paper, the decisions that follow after (and are subsidiary to) selection of a particular measurement basis. For example, Chapter 7 does not provide concepts to guide measurement decisions such as:

    (a) After selecting historical cost for assets:

        (i) Decisions about what costs to include for initial measurement (e.g. borrowing costs, etc.)

        (ii) Depreciation-related decisions, including determination of useful life and residual value), and

        (iii) Impairment-related decisions, including guidance on moving from historical cost to another measurement basis, if a current value better reflects an asset's value after an impairment.

    (b) After selecting a current value measurement for liabilities, decisions on:

        (i) Choice of discount rates; and

        (ii) How often (or why) discount rates should be adjusted.

IFRS 13's Hierarchy for Fair Value and Chapter 7

23. Chapter 7 leaves open the question of whether different measurement bases could apply to similar items. For example, if an entity has the policy of revaluing its buildings, Chapter 7 does not appear to prevent the entity using market value to value some buildings and replacement cost to value others. The choice is likely to depend on information availability, and consider achievement of the qualitative characteristics, while also taking into account the constraints. Then some buildings could be measured using market values (as evidenced by sales of similar buildings) and others valued using replacement cost (as evidenced by costs to construct similar buildings).

24. This is important for the question of whether an IFRS 13 meaning for fair value could be consistent with the Conceptual Framework. IFRS 13 allows a choice of "measurement techniques" to derive a fair value. It appears that Chapter 7 may be understood to allow a choice of "measurement bases" to derive a current value.

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[9] Examples of information presented outside of the financial statements include financial statement discussion and analysis, public finance sustainability reports, and reports on service performance information. Note that information in budget-actual reports also involve measurement issues that are not addressed in Chapter 7, albeit that IPSAS 24 describes this information as being "in the financial statements".

[10] Chapter 7 does not use the word "disclosure". There are two references to disclosures in the Basis for Conclusions (see BC 7.8 and BC 7.41), which note scope to provide disclosures on measurement bases.

Other Parts of the Conceptual Framework and Measurement

25. Other parts of the Conceptual Framework are relevant to information in GPFRs. The Conceptual Framework's Chapter's 1-4 and Chapter 8 address:

    (a) The users of GPFRs and their information needs;

    (b) The purposes of financial reporting;

    (c) The qualitative characteristics and constraints; and

    (d) Presentation of information in GPFRs.

26. For example, the qualitative characteristics and constraints are clearly relevant to financial statement measurement. Chapter 7 uses them to discuss measurement basis selection.

27. Where Chapter 7 does not address a particular financial statement measurement topic, one refers to these overarching concepts for guidance. For example, these overarching concepts, rather than those in Chapter 7, can be used to support arguments in favor of different options for capitalization of borrowing costs on initial measurement of an asset.

Can Chapter 7 be applied by analogy?

28. Can the ideas in Chapter 7 be applied to other financial statement measurement issues, even though Chapter 7 only addresses selection of measurement bases? For example, we can argue that, even though the objective of measurement focuses on selection of measurement bases, it nonetheless conveys the idea that financial statement measurement should "fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes[11]." Then that idea could, arguably, be used to guide financial statement-related measurement decisions that go beyond selection of measurement bases.

29. If this argument by analogy applies, then what would it look like for the example issue, i.e. capitalization of borrowing costs? Assessment of different capitalization options could be done by asking: "Which option would best support a fair reflection of the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes?"

Overview of IPSAS Measurement for the Financial Statements

30. This section provides an overview of IPSAS measurement, focusing on its use of measurement bases for assets and liabilities. This description aims to support identification of areas where current IPSAS measurement is not consistent with Chapter 7's coverage of measurement.

Historical Cost and Current Value

31. IPSASs use both historical cost and current value measurement bases. This is consistent with Chapter 7's coverage of measurement. The Public Sector Measurement project is not expected to reconsider the extent to which each of these measurement bases is used in IPSAS.

32. Where IPSASs allow the use of historical cost, that measurement is consistent with Chapter 7, which lists historical cost as a measurement basis for both assets and liabilities.

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[11] The objective of measurement is "to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes."

Fair Value and Market Value

33. IPSASs use fair value for revaluations (see, for example, IPSAS 17, *Property, Plant and Equipment*) and for measurement of particular categories of assets and liabilities, (see, for example, IPSAS 27 *Agriculture*). "Fair value" is also used in IPSAS for initial cost, where assets were received at no or a nominal cost.

34. The present definition of fair value in IPSAS is consistent with Chapter 7's definition of "market value", albeit that both definitions are ambiguous as their intended meaning (either an entry value or an exit value). Current IPSASs do not provide sufficient guidance on how to derive a "fair value" in different circumstances.

35. This project is expected to consider whether an IFRS 13 meaning for fair value is appropriate in IPSAS. The IFRS 13 definition is an exit price, supported by measurement "techniques", which consider market values, replacement costs and income (cash flows). There are areas of consistency between IFRS 13's definition of fair value and its descriptions of "techniques". Chapter 7 refers to market value as either an entry value or an exit value. A market value that is an exit value is consistent with IFRS 13's meaning for fair value. IFRS 13 use of "cost", appears to be largely the same as the replacement cost measurement basis in Chapter 7. (The connection between the income technique in IFRS 13 and measurement bases identified in Chapter 7 requires further consideration.)

Measurement Approaches that do not Align with (or Reference) a Measurement Basis

36. Some IPSAS measurement approaches do not align with (or refer to) a particular measurement basis. For example, IPSAS 12, *Inventories*, uses "lower of cost and net realizable value". This measurement approach will generally result in an historical cost value, but may be closer to net selling price, if net realizable value turns out to be the lower figure. A second example is IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, which uses "the best estimate of the expenditure required to settle the present obligation at the reporting date," which does not refer to any of Chapter 7's measurement bases for liability recognition.

37. This raises the question of whether the Public Sector Measurement project should attempt to ensure that IPSAS measurement always explicitly uses the measurement bases in Chapter 7. Taking that approach, wherever an IPSAS does not reference a Chapter 7 measurement basis revisions to its measurement approach would be necessary. An alternative approach would be to accept those measurement approaches that are "broadly consistent" with the Conceptual Framework's approach to measurement, with the type of variation seen in IPSAS 12 viewed as a "standards-level" issue appropriate for the particular topic, in this case measurement of inventories.