

**Meeting:** IPSASB Consultative Advisory Group  
**Meeting Location:** Abu Dhabi, United Arab Emirates  
**Meeting Date:** December 9, 2019

## Agenda Item 8

For:  
☐ Approval  
☒ Discussion  
☒ Information

### MEASUREMENT

<b>Project summary</b>	Project will revise IPSAS requirements for measurement, provide guidance on measurement and address the treatment of transaction costs and borrowing costs.	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Discussion items</b>	<a href="#">Initial Review of Responses</a>	<a href="#">8.1</a>
<b>Other supporting items</b>	<a href="#">Appendix A: IPSASB Due Process Checklist</a>	<a href="#">8.2</a>

## Agenda item 8.1

### Measurement: Initial Review of Responses

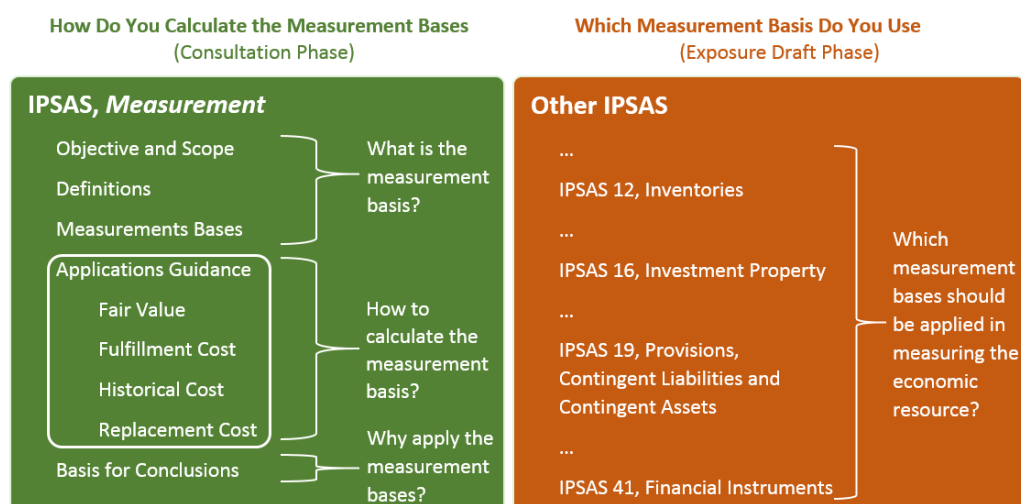
#### Background

1. After completing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) in 2014, the IPSASB recognized a need to address measurement requirements in IPSAS. Feedback from constituents on the IPSASB's 2014 Strategy and Work Plan consultation, noted significant support for a public sector Measurement project.
2. The Measurement project began in 2017, with the rationale that measurement requirements in IPSAS should be amended to better align with the Conceptual Framework. The project's objectives are to:
  - (a) Provide more detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used;
  - (b) Address transaction costs and borrowing costs; and
  - (c) Where necessary, issue amended IPSAS with revised requirements for measurement at initial recognition and subsequent measurement.

#### Project Output

3. The IPSASB intends to produce a standard, IPSAS XX, *Measurement*, that identifies the most commonly used measurement bases for measuring assets and liabilities for public sector entities applying IPSAS. The standard would provide definitions and explanatory text for those measurement bases, i.e., it would answer the "what?" question for each measurement basis. The appendices to IPSAS XX, *Measurement*, would include application guidance on how to calculate those measurement bases, i.e. it would answer the "how" question for the application of the respective measurement bases. The Basis for Conclusions would explain why the IPSASB thinking in relation how particular issues were addressed in IPSAS XX, *Measurement*.

Diagram 1: Relationship between IPSAS, Measurement, and Other IPSASs



4. Other IPSAS would continue to address the choice of a measurement basis, i.e., they would address the "which measurement basis" question. For example, IPSAS 17, *Property, Plant and Equipment*, provides requirements for which measurement bases to use when accounting for property, plant and

equipment, while IPSAS 41, *Financial Instruments*, identifies the appropriate measurement bases when measuring financial instruments.

#### *Project Roadmap*

5. Diagram 2 illustrates the process the IPSASB intends to follow to develop IPSAS XX, *Measurement*. The IPSASB recently completed the Consultation Paper Phase, represented by the orange arrow on the left, where it took an innovative approach by including an Illustrative ED to demonstrate the concepts proposed in the CP.

**Diagram 2: The Process from Consultation to Approved IPSAS, Measurement**



6. The IPSASB issued its Measurement Consultation Paper, including an Illustrative ED, on April 30, 2019. The comment period closed on October 14, 2019.

#### **Responses Received**

7. Overall, 31 individual responses were received by the IPSASB, representing over 100 organizations. IPSASB Staff was pleased with the level of response and found the majority of the responses provided insightful targeted feedback for the Board to consider as the project progresses to the next stage.
8. Of the comments raised by respondents, IPSASB staff identified three to seek advice from the CAG:
  - (a) Appropriateness of including an Illustrative Exposure Draft with a Consultation Paper;
  - (b) Accounting for Borrowing Costs; and
  - (c) Tension with the Limited-Scope Review of the Conceptual Framework project.

#### *Illustrative Exposure Draft*

9. As noted in paragraph 5, the IPSASB adopted an innovative approach in developing the Measurement CP, with a hope to get richer feedback on the proposals. By including an Illustrative ED in the CP, the IPSASB took an innovative approach based on advice from the Public Interest Committee to improve the time it takes to develop standards.
10. This approach was discussed by CAG members at the December 2018 meeting. Feedback from members of the CAG was mixed ranging from supportive because it gave respondents an idea of what the final product would look like, to cautions because the Illustrative ED:
  - (a) Was not be a fully developed document;
  - (b) May have appeared that the IPSASB is bypassing a state of due process;
  - (c) Lacked consequential amendments which are key for respondents to consider; and
  - (d) May have resulted in a waste of IPSASB Staff resources should respondents disagree with the proposed approach.
11. While not prompted by a specific matter for comment, a number of respondents commented on this approach. Given members' previous discussion, this seemed like an opportune time to revisit the approach taken with members of the CAG and receive additional input.

12. While not an overwhelming number of respondents specifically addressed this issue, all except for one respondent, strongly supported this new approach. Respondent 07 which was providing a consolidated response for a number of stakeholders, summarized both sides of the debate well in its response as follows:

*There were mixed reactions to the approach. Some stakeholders supported the publication of both a Consultation Paper and an “illustrative” Exposure Draft as this helped to visualise at least one part of the project output. These stakeholders however indicated that they did not focus on reviewing the technical content of the illustrative Exposure Draft because it was marked as “illustrative”. Other stakeholders indicated that they found it difficult to engage with the issues because the ideas were not well enough developed and were too conceptual.*

13. Respondent 04, which was the respondent that opposed this approach noted:

*The IPSASB has trialed a new approach with this CP and included an illustrative ED. The IPSASB hoped that this approach would provide constituents with a clearer view of the IPSASB’s direction of travel, by showing how the ideas in the CP could be reflected in a draft IPSAS. We appreciate the IPSASB’s intentions, but have not found this approach to be helpful. We would have found it more helpful if the IPSASB had developed a consultation paper in the usual way. We believe this approach has led to the omission of some important first steps, including undertaking the conceptual thinking we have highlighted above and consulting on these matters.*

*In addition, the partial nature of the illustrative ED has made it difficult to comment on the guidance. The amendments to other standards are critical to forming a view on the appropriateness of the measurement bases selected and the appropriateness and completeness of the proposed application guidance. A Basis for Conclusions is also essential for commenting on an ED.*

14. In reviewing the responses, IPSASB Staff felt the responses were targeted and well thought out providing the IPSASB with clear issues to consider. This may be due to a variety of reasons such as:
- (a) Measurement is an important topic pervasive to the suite of standards;
  - (b) Clear Preliminary Views and Specific Matters for Comments; and / or
  - (c) Inclusion of an Illustrative ED.
15. Regardless of the reason, this approach seemed to help the majority of constituents provide detailed responses on the Measurement CP and might be a useful approach for future projects.

**Question to CAG Members**

Staff are of the view this approach is beneficial for select projects going forward. Given the responses noted, does the CAG agree?

**Borrowing Costs**

16. IPSAS 5, *Borrowing Costs*, defines borrowing costs as interest and other expenses incurred by an entity in connection with the borrowing of funds. The benchmark treatment in IPSAS 5 requires the immediate expensing of borrowing costs. However, IPSAS 5 permits the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
17. Due to the challenges in allocating borrowing costs to assets when borrowing is managed centrally, the CP proposed all borrowing costs be expensed. This was discussed by CAG members at the June 2017 meeting in the context of the issues the measurement project aims to address. One of those

issues was clarification when accounting for borrowing costs. While discussion on this topic was limited, some members noted alignment with GFS should be considered, and where alignment is not possible, differences should be tracked.

18. Respondents were almost evenly split on their views on this proposal.
19. Respondents that supported the CP's preliminary view noted:
  - (a) Expensing borrowing costs achieves greater comparability across entities;
  - (b) Borrowings in the public sector are centralized which creates challenges in allocating borrowing costs to specific projects or assets;
  - (c) Borrowing costs are not a characteristic of the asset and the financing decision is not relevant to the measurement of the asset; and
  - (d) Simplicity in application.
20. Respondents that disagreed with the CP's preliminary view noted:
  - (a) Difficulties in attributing borrowing costs to specific projects in the public sector is exaggerated and is an insufficient reason to diverge from private sector accounting treatment. Large conglomerates in the private sector face similar challenges and are able to capitalize borrowing costs;
  - (b) By failing to include borrowing costs into the overall cost of the asset, there will be a failure to measure the cost of the asset to its service potential;
  - (c) Immediate expensing of borrowing costs leads to inconsistency in treatment with the requirement to capitalize transaction costs directly attributable to the acquisition of an asset; and
  - (d) Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset.
21. Some respondents, both for and against the preliminary view, suggested the IPSASB consider maintaining the status quo and allow for an accounting policy choice.
22. There appears to be two options for the IPSASB to consider:
  - (a) Proceed with the preliminary view and require all borrowing costs be expensed; or
  - (b) Maintain the existing requirements in IPSAS 5 and allow for an accounting policy choice of whether to expense or capitalize borrowing costs.

**Question to CAG Members**

Are there any public interest considerations the IPSASB should take into account when evaluating the two approaches? Is there another approach the IPSASB should consider?

*Limited-Scope Review of the Conceptual Framework*

23. Some respondents noted, the IPSASB needs to prioritize work on its Limited-Scope Review of the Conceptual Framework. One of the measurement project's stated objectives is to better align IPSAS with the Conceptual Framework. Some respondents suggest the IPSASB cannot meet this objective without first deciding what changes, if any, are required to the measurement chapter in the Conceptual Framework. This was raised in regard to a number of specific issues:
  - (a) **Market value.** The CP identifies fair value, as defined in IFRS 13, *Fair Value Measurement*, as a measurement basis. The IPSASB's Conceptual Framework, issued in 2014, identifies market

value, not fair value, as a measurement basis. The IPSASB needs to address the practical differences between fair value and market value and whether both measurement bases are required.

- (b) **Replacement cost.** Is identified in the CP as a valuation technique that can be applied when determining fair value. The CP also identifies replacement cost as a unique measurement basis in its own. The IPSASB needs to address practical differences between replacement costs as a measurement basis and as a valuation technique and whether both are required.
  - (c) **Other measurement bases.** The IPSASB's Conceptual Framework identifies eight measurement bases. Of these eight, the CP identified four measurement bases that were applied in IPSAS that required application guidance. The IPSASB needs to address whether the remaining measurement bases will be maintained in the Conceptual Framework.
24. The IPSASB was aware of these issues and the tension between the Measurement project and the Limited-Scope Review of the Conceptual Framework project when the CP was issued. The IPSASB sought to address this tension by starting the Limited-Scope Review of the Conceptual Framework project in January 2020 when the responses to the Measurement CP are being analyzed. This allows for both projects to run in parallel and ensures that the limited scope review considers the responses to the Measurement CP.
25. Staff believe from a program management perspective it is important that the measurement elements of the Limited Scope Review of the Conceptual Framework are completed and exposed in tandem with the ED on measurement. However, staff does not believe it is appropriate, or needed, to pause measurement for this reason.
26. Furthermore, Staff are of the view running both projects in parallel is in the public interest because:
- (a) **Consistent Guidance.** Considering measurement issues at the IPSAS level and the conceptual framework level facilitates the development of guidance that is complementary in both the Measurement IPSAS and the Conceptual Framework. Consistent principles across IPSAS should reduce confusion for constituents and facilitate comparability and consistency of IPSAS guidance.
  - (b) **Consistent Analysis.** Addressing measurement issues related to both projects at the same time ensures consistent decisions are made by the IPSASB. Addressing the same issue at different times can result in incomplete information when making decisions due to changes in Staff or members of the IPSASB. This consistent decision making should provide for a stronger, more direct link between the Conceptual Framework and the Measurement IPSAS.
  - (c) **Address Issues Congruently.** The IPSASB is aware there are inconsistencies between the proposals put forward in the Measurement CP and the Conceptual Framework. Running the projects in parallel allows these issues to be addressed jointly allowing constituents to understand how all guidance works together.

**Question to CAG Members**

Do members of the CAG believe the IPSASB has adequately addressed the public interest by operating the Limited-Scope Review of the Conceptual Framework project and the Measurement project in parallel?

## Appendix A: IPSASB Due Process Checklist

#	Due Process Requirement	Yes/No	Comments
<b>A. Project Brief</b>			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its March and June 2015 meetings as part of its Work Plan discussions. The project brief was approved in June 2015 (see the <a href="#">June 2015 minutes</a> ).
A2.	The IPSASB has approved the project in a public meeting.	Yes	When the project went live in March 2017 the IPSASB made minor amendments to the project brief and re-approved it. See the <a href="#">approved project brief</a> and the <a href="#">March 2017 minutes</a> .
A3.	The IPSASB CAG has been consulted on the project brief.	N/A	This step was not in effect for this project at this point in time.
<b>B. Development of Proposed International Standard</b>			
B1.	The IPSASB has considered whether to issue a consultation paper, or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	The IPSASB issued a <a href="#">Consultation Paper</a> on April 30, 2019.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	N/A	Responses are currently being analyzed in the same manner as comments received on an exposure draft.
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	N/A	Consultation on significant issues is being performed as part of the December 2019 meeting.
B4.	The IPSASB has approved the issue of the exposure draft.	Yes	This step has not been reached. Development of the exposure draft is in progress.