

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Virtual Meeting

Meeting Date: December 6, 2021

Agenda Item

4

For:

Approval

Discussion

Information

MEASUREMENT SUITE OF PROJECTS (ED 76 – ED 79)

Project summary	<p>The aim of the measurement suite of projects is to develop:</p> <ul style="list-style-type: none"> • Straight-forward measurement principles, by way of a measurement hierarchy, that apply throughout IPSAS and align with the Conceptual Framework; • Enhanced guidance clarifying the recognition and measurement of infrastructure and heritage assets that are Property, Plant, and Equipment; and • A standard that fills a gap for assets held for sale and discontinued operations. 	
Meeting objectives	Topic	Agenda Item
Discussion Items	Responses to ED 76, Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements, ED 77, Measurement, ED 78, Property Plant and Equipment, and ED 79, Non-Current Assets Held for Sale and Discontinued Operations	4.1
Other supporting items	Appendix A: IPSASB Due Process Checklist (condensed to included portions relevant to the CAG)	4.2
	Appendix B: Links to Other Documents	4.3

Responses to ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, ED 77, *Measurement*, ED 78, *Property Plant and Equipment*, and ED 79, *Non-Current Assets Held for Sale and Discontinued Operations*

Background

1. On April 22, 2021, the IPSASB issued a suite of four Exposure Drafts (EDs). They were published together to highlight the common measurement principles proposed and the ways they are applied consistently throughout the draft guidance. The four EDs address several key conceptual challenges and practical implementation issues identified by the public sector community by introducing:
 - (a) Straight-forward measurement principles, by way of a measurement hierarchy, that apply throughout IPSAS and align with the Conceptual Framework;
 - (b) Enhanced guidance clarifying the recognition and measurement of infrastructure and heritage assets that are Property, Plant, and Equipment; and
 - (c) A standard that fills a gap for assets held for sale and discontinued operations.
2. The comment period closed October 25, 2021. A total of 165 responses were received across the four EDs:

Exposure Draft	Number of Responses	Summary of ED proposals
<u>ED 76, <i>Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements</i></u>	43	ED 76 streamlines the measurement principles in the Conceptual Framework by eliminating unused measurement bases and enhancing focus on those that are commonly used. The ED proposes a clear measurement hierarchy to help stakeholders apply the principles in practice and aligns measurement concepts with the guidance provided in IPSAS.
<u>ED 77, <i>Measurement</i></u>	45	ED 77 proposes new guidance in a single standard which addresses how commonly used measurement bases are applied in practice. It brings in generic guidance on fair value for the first time, and it proposes a public sector specific current value measurement basis to respond to stakeholder views that a new measurement basis is required as an alternative to fair value for assets held for their operational capacity.
<u>ED 78, <i>Property, Plant, and Equipment</i></u>	43	ED 78 updates IPSAS 17, <i>Property, Plant, and Equipment</i> by adding general measurement guidance and measurement options when accounting for assets within its scope, identifying the characteristics of heritage and infrastructure assets, and proposing new guidance on how these important types of public sector assets should be recognized and measured.

ED 79, Non-Current Assets Held for Sale and Discontinued Operations	34	ED 79 is aligned with IFRS 5, <i>Non-Current Assets Held for Sale and Discontinued Operations</i> and proposes new guidance on how to account for non-current assets that are classified as held for sale, when they meet specific criteria.
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3. The following high-level project timeline is based on the preliminary review of responses to the suite of EDs. The CAG is asked to advise on the public interest aspects for IPSASB consideration. In particular, CAG member input is appreciated to assist the IPSASB in first establishing a clearer big-picture approach to the proposed public sector measurement basis. With this big-picture approach as a guide, CAG member input will likely be requested again in June 2022 to assist the IPSASB in tackling specific issues related to the measurement projects.



4. This paper summarizes key issues identified by ED respondents regarding the proposed guidance. Staff also outline potential approaches to respond to key issues for CAG members to consider.

Proposed Guidance on Current Operational Value

5. As noted in the analysis section below, the most significant issues raised by respondents relate to the clarity of the public sector measurement basis developed and proposed by the IPSASB in the measurement suite of EDs – Current Operational Value (COV).

Background on COV

6. Most responses to the April 2019 Measurement Consultation Paper (CP) agreed with the IPSASB’s preliminary view that fair value is relevant and applicable in measuring some assets and liabilities in the public sector. Constituents’ concerns with fair value related to the fact that when an item is held for its operational capacity, as is often the case in the public sector, fair value is difficult and inappropriate to apply because the following concepts generally are not applicable:

- (a) Highest and best use; and
- (b) Maximizing the use of market participant data.

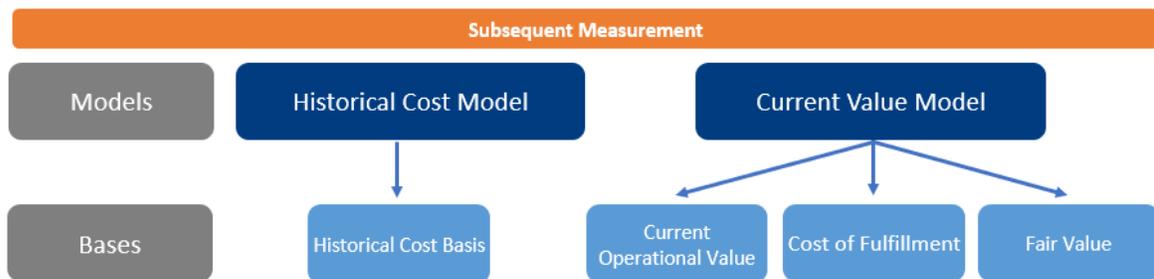
7. While respondents agreed the fair value definition proposed is applicable in some circumstances (where assets are held to generate income either through use or sale), they also noted the definition is unlikely to be appropriate as a current value measurement basis in most public sector cases (where assets are held to deliver a service). Respondents expressed the view that a public sector specific current measurement basis is required.
8. In response to constituents' concerns raised in the CP, the IPSASB developed a current value measurement basis unique to the public sector – COV. Given fair value is applied to items held for their financial capacity, COV was developed specifically for assets held for their operational capacity.

Measurement Objective

9. The objective of a COV measurement is to estimate the value of a non-financial asset in achieving the entity's service delivery objectives at the measurement date. COV provides measurement information in the context of the current value of the asset in its current use. This provides users with:
 - (a) In the statement of financial position, the amount an entity would incur at the measurement date to replace the capacity to achieve its present service delivery objective.
 - (b) In the statement of financial performance, the consumption of the asset, through depreciation, which reflects the amount the entity would incur during the period to provide the service at the prevailing prices at the point in time when an asset is measured. This differs from historical cost, which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired.
10. When assets are held for their operational capacity in the public sector, they are held to achieve a service delivery objective. Holding an asset to meet a service delivery objective often results in an asset being held in a capacity other than that of one that satisfies its highest and best financial use. For example, an entity may have a service delivery objective to provide medical services to citizens of a city center. While operating a building the entity owns as a hospital may not be in the best financial interests of the entity, it does satisfy the service delivery objective.

Measurement Hierarchy

11. For context, COV was proposed as a current value measurement basis:



Reference to COV in EDs

12. The COV measurement basis is proposed throughout the EDs:

Exposure Draft	Summary of ED proposals
ED 76, Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements	ED 76 proposes COV be included in the measurement bases defined in the Conceptual Framework. The measurement objective and core principles are provided.
ED 77, Measurement	ED 77 expands on the objective and principles proposed in the Conceptual Framework. Guidance on how to measure COV in practice is included as an appendix to the proposals (an appendix on “how to” measure a basis is included for each of the four measurement bases proposed).
ED 78, Property, Plant, and Equipment	ED 78 proposes an accounting policy option allowing property, plant, and equipment be measured at COV.
ED 79, Non-Current Assets Held for Sale and Discontinued Operations	No reference to COV is made in ED 79.

Responses Received and Key Themes on Proposed Guidance in the Measurement EDs

13. The IPSASB received a total of 165 responses across the four EDs. The proposed EDs were generally well received. Respondents commended the IPSASB for managing these related projects and allowing constituents to evaluate the proposals holistically.
14. Staff’s preliminary review of responses identified two overarching themes prevalent across the suite of EDs:
- (a) **General support for the proposals across the EDs** – Except for COV, respondents strongly supported the proposals across the EDs. While minor issues exist requiring the IPSASB’s attention, the preliminary analysis did not identify any significant issues.
 - (b) **Current operational value** – Respondents broadly supported including COV in the framework. However, there was some dissension, as follows:
 - (i) **No need for a public sector specific measurement basis.** Fair value is appropriate for assets held for operational capacity. The IPSASB should focus on developing guidance on applying fair value in the public sector (i.e., how is the concept of ‘highest and best use’ applied in the public sector).
 - (ii) **Replacement cost.** Respondents supported a public sector specific measurement basis for assets held for operational capacity, but suggested it be based on replacement cost.
 - (iii) **Technically complex.** Including two complex current value measurement bases, COV and fair value, is onerous for preparers of financial statements, particularly as COV is a new measurement basis.

Substantive issues identified across the suite of EDs relate to COV. This was expected. COV is a measurement basis developed by the IPSASB to address measurement issues associated

with public sector assets. Given the forward thinking incorporated into this basis, it is unfamiliar to respondents and requires clarification and further consideration.

15. Based on responses, staff identified three key issues for CAG members' consideration and discussion as they relate to COV. CAG member advice will assist the IPSASB in determining approaches to consider the following issues:
- (a) **Issue 1:** Should the IPSASB continue developing a public sector specific measurement basis;
 - (b) **Issue 2:** If yes, should the IPSASB continue exploring COV as a public sector specific measurement basis?
 - (c) **Issue 3:** If yes, what factors should the IPSASB consider when evaluating responses related to COV? If not, what would be the alternative?

Issue 1 and Issue 2

16. Responses related to COV were mixed. Respondents generally fell into one of three recommendations for the IPSASB's consideration:
- (a) **Move forward with COV proposals (Recommendation 1).** Several respondents supported the COV proposals. These respondents agreed a public sector measurement basis was necessary for assets held for their operational capacity. They agreed COV appropriately reflected the needs of a user when making financial decisions regarding assets held for their operational capacity. To improve the proposals, these respondents suggested minor clarifications. For example, some suggested the proposed definition is open-ended. The definition states that COV is the "value" of an asset used to achieve the entity's service delivery objectives. The definitions of other measurement bases, such as fair value, which requires assets be measured at the price that would be received to sell the item, are clearer in their objective.
 - (b) **Build on COV proposals (Recommendation 2).** Several respondents agreed conceptually with COV. They agreed a public sector measurement basis was necessary to support the measurement of assets held for their operational capacity. However, consistent with the alternative view included with ED 76 and ED 77, several respondents found principles established for COV unclear and recommended clarity be enhanced throughout. These respondents recommended the IPSASB work with the concepts developed but focus on how they can be applied practically by users (see example after paragraph 16(c)).
 - (c) **Depart from COV proposals (Recommendation 3).** Several respondents disagreed COV was appropriate for application in IPSAS. These respondents were of the view either:
 - (i) **Fair value can be applied throughout IPSAS.** COV should be removed, and fair value should be applied to all assets held in the public sector;
 - (ii) **Fair value should be amended for the public sector.** Guidance in the fair value appendix should be updated to reflect the unique characteristics of public sector assets. For example, guidance should be developed to assist entities to understand better how the 'highest and best use' and 'market participants' concepts should be applied in the public sector context. They consider that applying the fair value basis to all non-financial assets, despite the need to exercise judgement in applying those concepts, would be preferable to understanding two measurement bases.

- (iii) **Replacement cost should be used in place of COV.** Users are interested in the operating capacity of the government to provide public benefits, and the cost of replacing that capital if the entity was deprived of it. A replacement cost approach is an appropriate current measurement basis to reflect this objective.

Note – some respondents recommended incorporating replacement cost concepts with the COV proposals (Recommendation 2). Under this view COV should be the replacement cost of the service potential embodied in the asset used to achieve an entity’s service delivery objectives. Departing from COV, Recommendation 3, and using replacement cost in its place, would measure the cost to replace the asset. While these replacement cost recommendations are nuanced, this distinction is important for how the measurement basis is presented in the literature and how staff has distinguished between Recommendation 2 and Recommendation 3.

17. Responses were split between these three recommendations. Each recommendation was supported by approximately one third of respondents. As a result, the IPSASB will have to consider all recommendations in detail as noted below.

Recommendation 1 – Move forward with COV proposals

18. The IPSASB could clarify the COV principles proposed by focusing on the ambiguity identified by respondents and adding more precise guidance. Clarification under this recommendation would be limited to wording and supporting principles with examples.

Benefits	Shortcomings
<ul style="list-style-type: none"> Provides the IPSASB with a strong base to move forward. Maintains consistency with proposals (some stakeholders raised concerns with too much change between each iteration of the document). 	<ul style="list-style-type: none"> May not address concerns with COV identified by a large group of respondents.

Recommendation 2 – Build on COV proposals

19. The IPSASB could work with the COV principles proposed to develop a more robust measurement basis. This recommendation would maintain the proposed measurement objective and concepts, but allow the IPSASB more flexibility by updating principles to be more applicable in practice.

Benefits	Shortcomings
<ul style="list-style-type: none"> Provides the IPSASB with a strong base to move forward. Measurement basis is based on principles and concepts the IPSASB already supports. 	<ul style="list-style-type: none"> Additional resource requirements to make the measurement basis more robust. Delicate balance between enhancing the principles of the existing proposal and developing a new measurement basis.

Recommendation 3 – Remove COV

20. The IPSASB could depart from COV as the measurement basis to achieve the measurement objective. COV would be replaced with fair value (as currently proposed), fair value updated for the public sector, or replacement cost.

Benefits	Shortcomings
<ul style="list-style-type: none"> Constituents will be more familiar with the concepts of an existing measurement basis (such as fair value or replacement cost). 	<ul style="list-style-type: none"> Departing from COV may be interpreted as not addressing stakeholder requests to develop a public sector specific measurement basis (in response to the CP issued in 2019 constituents indicated fair value was not appropriate for assets held for their operating capacity). The IPSASB developed COV, in part, in response to stakeholder comments that replacement cost should not be a measurement basis (as it is also a technique to measure fair value). Most complex recommendation as it requires the IPSASB to revisit all decisions related to COV to date.

Questions for CAG Members:

Do CAG members think the IPSASB should continue developing a public sector specific measurement basis, and why?

If yes, do CAG members think the IPSASB should continue exploring COV as a public sector specific measurement basis, and why?

Issue 3: What factors should the IPSASB consider when evaluating responses related to COV?

21. In evaluating responses, the IPSASB weighs responses based on factors in the table below.

Factor	Detail
Presented information the IPSASB had not previously considered.	<p>The IPSASB considers various options when developing concepts and principles for public comment. After careful consideration, the IPSASB will reject one option in favour of another.</p> <p>Staff will place more weight on responses that have identified a new option not considered by the IPSASB, or new information not previously considered by the IPSASB when developing the principle or concept.</p>

Raised an issue specific to the public sector.	The IPSASB focuses its resources on developing guidance that is relevant to the public sector. Responses that identify a challenge in applying the guidance that are unique to the public sector will be given more weight. Challenges that apply across the public and private sector, but have been resolved in the private sector will be given less weight.
Identified principle related challenges.	<p>Many responses provide the IPSASB insight why guidance is challenging to apply in practice (often it can be challenging to obtain the information). These practical issues focus on cost vs benefit.</p> <p>Higher quality responses provide the IPSASB insight as it relates to challenges when applying the principles (for example, inconsistencies in concepts). Staff will place more weight on responses that identify challenges when applying principles.</p>

22. Given the potential pervasiveness the COV proposals represent throughout the IPSAS suite of standards and the resource commitments necessary to fulfill any of the recommendations presented in paragraph 16, the IPSASB may have to consider additional factors when evaluating the best recommendation to pursue.

Question for CAG Members:

Can CAG members identify any additional factors or approaches the IPSASB should consider when assessing the substance of each stakeholder comment to determine the most appropriate recommendation to pursue?

Appendix A: IPSASB Due Process Checklist (condensed to included portions relevant to the CAG)

Project: Measurement

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
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 June 2015 minutes).
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 approved project brief and the March 2017 minutes .
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. Development of Proposed International Standard			
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 Consultation Paper 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.	Yes	All comments received have been publicly posted on the website. The IPSASB has deliberated the feedback received at public IPSASB meetings in forming its views on how to develop the measurement suite of exposure drafts.
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	Agenda Item 8 from December 2019 meeting sought the CAG's views on the significant issues to be address in the development of the exposure drafts.

#	Due Process Requirement	Yes/No	Comments
<i>D. Consideration of Respondents' Comments on an Exposure Draft</i>			
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	Yes	This Agenda Item seeks the CAG's views on significant issues raised in the comment letters received.
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	N/A	The comprehensive review of responses will be presented to the IPSASB for detailed consideration in 2022.

Appendix B: IPSASB Links to Other Documents

1. This appendix provides links to document which may be useful to CAG members in providing a background related to the project.
 - (a) [Supporting Resources Webpage for ED76-ED79](#)
 - (b) [ED 76, Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements](#)
 - (c) [Exposure Draft 77, Measurement](#)
 - (d) [IPSASB Webinar: ED 76 and ED 77, An Introduction](#)