

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Public Sector Measurement

- 1.1 Chapter 7 of the Conceptual Framework (the Framework) addresses the measurement of assets and liabilities in financial statements. This chapter identifies the following measurement bases for assets and liabilities:

Assets

- Historical Cost
- Market Value
- Replacement Cost (Optimized Depreciated Replacement Cost)
- Net Selling Price
- Value in Use

Liabilities

- Historical Cost
- Cost of Fulfillment
- Market Value
- Cost of Release
- Assumption Price

- 1.2 Measurement requirements in existing IPSAS specify a variety of measurement bases: a number are fair value measurements—this definition of fair value pre-dates IFRS 13, *Fair Value Measurement*, and is not an explicit exit value: *the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.*¹ Largely because of this, the Framework did not include a definition of fair value, rather using the term “market value.”

- 1.3 The Framework reflects a view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics. The Framework emphasizes that:

- Historical cost is a measurement basis that is strongly related to the accountability objective of financial reporting;
- Depreciated replacement cost is a measurement basis in its own right and is likely to be an appropriate current value measurement basis for specialized operational assets; and

¹ The definition in IFRS 13 is: *the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*

- Cost of Fulfillment is likely to be the only feasible measurement basis for settling many liabilities, especially where there is no transaction price and no realistic likelihood of a third party assuming the liability.

1.4 The combined impact of the publication of the Conceptual Framework and the revised definition of fair value in IFRS 13, *Fair Value Measurement*, is that (i) existing measurement requirements in many IPSASs are not consistent with the Framework and (ii) the definition of fair value in a number of IPSASs, notably IPSAS 17, *Property, Plant and Equipment*, is not consistent with the definition in IFRS 13.

2. Project Rationale and Objectives

(a) Project rationale

2.1 The project rationale is that the measurement requirements and guidance in many current IPSASs and in on-going projects (see Appendix A) are not consistent with the Conceptual Framework and should be amended.

(b) Objectives to be achieved

2.2 The objectives are:

- To issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure;
- Provide more detailed guidance on the implementation of replacement cost and cost of fulfillment and the circumstances under which these measurement bases will be used; and
- Address transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs.

2.3 The intermediate objectives are to produce a Consultation Paper identifying feasible options and an Exposure Draft of proposed changes to IPSASs.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

2.4 The project is consistent with the IPSASB's strategic sub-objective of "developing high-quality public sector financial reporting standards". The project is also consistent with the objective of raising awareness of IPSASs and the benefits of their adoption, because the adoption of depreciated replacement cost responds to a key characteristic of most public sector entities; that their primary objective is the delivery of services, rather than the generation of cash flows.

ii. Link to IFAC Strategic Plan

2.5 IFAC's Strategic Plan for 2013–2016, *Leading the Way*, has two strategic objectives to which this project responds:

- (a) An urgent focus on improved public sector financial reporting; and
- (b) The development, adoption and implementation of high-quality international standards.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to identify and evaluate current measurement requirements for both measurement at initial recognition and subsequent measurement and related guidance in the existing suite of IPSASs, evaluate whether they are in accordance with the Framework and propose amendments. The project also considers:
- a) The need for more detailed implementation guidance for replacement cost and cost of fulfillment;
 - b) The rationale and cost-benefit of disclosures using alternative measurement bases to those adopted for measurements using Depreciated Replacement Cost in the statement of financial position, drawing on the Conceptual Framework, and particularly Chapter 8, *Presentation in General Purpose Financial Reports*;
 - c) Determination of whether assets are specialized; and
 - d) Treatment of transaction costs.

(b) Key Issues

- 3.2 The key issues are listed below:

Key Issue #1—Identifying measurement requirements in current IPSASs and on-going projects and evaluating extent to which they are consistent with the Framework.

- 3.3 The Framework underpins the development of IPSASB's literature. The project will identify measurement requirements in current IPSASs and on-going projects and evaluate whether they are in accordance with the Framework. It will then assess whether they should be amended. Changing measurement requirements imposes costs on preparers and there may be cases where existing requirements better meet user needs.

Key Issue #2 —Implementation Guidance

- 3.4 The project will consider the need for implementation guidance particularly for operationalization of replacement cost and cost of fulfillment.

Key Issue #3—Factors to be considered in determining whether an asset is specialized

- 3.5 As indicated in paragraph 1.3 above the Framework states that replacement cost is likely to be the appropriate measurement basis for specialized public sector assets. This raises the question of which factors should be taken into account in determining whether an asset is specialized. For example, should the need to locate an asset in a particular area be considered an aspect of specialization?

Key Issue #4—Treatment of Transaction Costs

- 3.6 The treatment of transaction costs, including borrowing costs, will be considered. The treatment of borrowing costs is a significant issue in some jurisdictions, but during discussion of the project brief in June 2015 IPSASB members decided that this project should consider all transaction costs as they affect measurement.
- 3.7 The issue of borrowing costs arose in 2007 when the IASB issued a revised IAS 23, *Borrowing Costs*. The revised IAS 23 eliminated the option of the immediate expensing of borrowing costs. In

accordance with its convergence policy the IPSASB commenced a limited scope project to revise IPSAS 5, *Borrowing Costs*. The initial objective was to remove the expensing option in IPSAS 5. Following an intensive consideration of public sector circumstances, the IPSASB formed a view that in most cases the expensing of borrowing costs is the most appropriate accounting policy and that capitalization of borrowing costs should be restricted to cases where there is a direct link between the debt instrument and the qualifying asset. The IPSASB issued ED 35, *Borrowing Costs*, which proposed this approach in 2008.

- 3.8 The response to ED 35 was inconclusive and there was no clear indication of the approach that the IPSASB should take. The IPSASB therefore concluded that it was difficult to determine the appropriate treatment for borrowing costs in the public sector until the Framework had been completed.
- 3.9 This project will consider treatment of transactions costs, for example, professional fees for legal services and transfer taxes. As part of its broad consideration of transaction costs it will reopen the approach to borrowing costs. It will consider whether there should be a differential approach to borrowing costs based on whether assets are measured at historical cost or at current value.

Key Issue #5—Disclosures

- 3.10 The project will evaluate the current disclosure requirements in IPSASs related to measurement, taking into account the concepts in Chapter 8, *Presentation in General Purpose Financial Reports*. In particular, the project will consider the rationale and cost-benefit of disclosures using alternative measurement bases to those adopted for measurements for the statement of financial position.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 There are links to IFRS 13, *Fair Value Measurement*. One of the objectives of IFRS 13 is to set out in a single IFRS a framework for measuring fair value. The higher level aim is to enhance consistency of measurement requirements in the IASB's literature. This IPSASB project has a similar aim of enhancing consistency.

(b) Relationship to Other Standards, Projects in Process or Planned Projects

- 4.2 There is a strong link to the two projects on Public Sector Assets: Infrastructure and Heritage. The Infrastructure Assets project is not projected to start until Quarter 2 2017, so that it can be informed by the approach in this project.

(c) Other—Government Finance Statistics

- 4.3 Measurement requirements in the Government Finance Statistics Manual 2014 for financial and non-financial assets will be considered. The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) will provide the approach.

5. Development Process, Project Timetable and Project Output

(a) Development Process

- 5.1 The project will take a multi-stage approach, commencing with a survey of measurement requirements in IPSASs (except for financial instruments) against the Conceptual Framework and

IFRS 13. The IPSASB will use the resulting inventory to decide on the project’s next stages. The development of outputs will be subject to the IPSASB’s formal due process. The approval of the ED will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

(b) Project timetable (Revised)

5.2 The major milestones are listed below.

Major Project Milestones	Expected Completion
Present revised Project Brief	March 2017
Preliminary analysis (measurement: bases & transaction costs)	June 2017
Preliminary analysis (disclosure, etc.) and IPSASB decisions on project next steps	September 2017
<i>Indicative</i>	<i>Indicative</i>
Development of ED, <i>Transaction Costs</i>	December 2017
Development of Consultation Paper (CP)	June 2018
Approve CP / Issue IPSAS amendment, <i>Transaction Costs</i>	September 2018
Review of responses to CP	June 2019
Develop draft amendments and additions to IPSASs	December 2019
Approve ED of proposed amendments and additions to IPSASs (four month comment period)	March 2020
Review of Responses to ED	September 2020
Issues amendments and additions to IPSASs	March 2021

(c) Project output

5.3 The initial output will be a CP. Following the evaluation of responses to the CP, an ED containing proposed amendments to the measurement requirements and amendments and additions to guidance the existing suite of IPSASs will be issued. The final output will be revised IPSASs with amended requirements and guidance, including, potentially, additional guidance.

6. Resources Required

(a) Task Force

6.1 A Task Force will oversee the project. It is proposed that this Task Force should include a representative of the International Valuation Standards Council (IVSC) and the statistical accounting community.

(b) Staff

6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 The range of existing measurement and disclosure requirements in existing IPSASs. The complexity of certain measurement bases. The extra coordination and consultation related to a Task Force compared with a Task Based Group.
- 6.4 Developing a Consultation Paper extends the length of this project by 15-18 months.

7. Important Sources of Information

7.1 Important information sources include:

- Chapters 7 and 8 of the Conceptual Framework;
- Governmental Accounting Standards Board, Statement 72, *Fair Value Measurement*;
- Conseil de Normalisation des Comptes Publics (CNOCP), Standard 6, *Tangible Assets*;
- International Valuation Standards Council, Exposure Draft, *Valuations of Specialised Public Sector Assets*;
- Public Sector Accounting Group of Canadian Institute of Chartered Accountants, *Guide to Accounting for and Reporting Tangible Capital Assets*
- New South Wales Treasury, *Policy and Guidelines Paper*, Valuation of Physical Non-Current Assets at Fair Value
- CPA Australia, *Guide to Valuation and Depreciation under the International Accounting Standards for the Public Sector*
- Government Finance Statistics Manual 2014.

APPENDIX A: ON-GOING AND RECENT PROJECTS THAT INCLUDE MEASUREMENT²

On-going projects:

- (a) Cash Basis IPSAS;
- (b) Leases;
- (c) Revenue and Non-Exchange Expenses;
- (d) Social Benefits;
- (e) Heritage; and
- (f) Infrastructure (expected to start in June 2017).

Recently completed projects that considered measurement and deferred to this project:

- (a) Employment Benefits (IPSAS 39);
- (b) Impairment (IPSAS 21 and IPSAS 26);
- (c) Interests in Other Entities (IPSASs 34-38); and
- (d) Public Sector Combinations (IPSAS 40).

² This list excludes the two financial instruments projects (Public Sector Financial Instruments and Financial Instruments Update) because they are outside of the scope of this project.