### CONCEPTUAL FRAMEWORK – LIMITED-SCOPE UPDATE

| Project summary | The project objective is update Chapter 7, Measurement, of *The Conceptual Framework for Financial Reporting by Public Sector Entities*, to reflect experience in use of the Framework since publication in 2014 and post-2014 developments in the International Accounting Standards Board. |
| Board sponsor | • Ian Carruthers |

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| Other supporting items | Supporting Documents – ED 76, Conceptual Framework (including Basis for Conclusions) | 4.3.1 |

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† Project roadmap, decisions and instructions are managed in conjunction with measurement project. See Agenda Item 3 for details.

Prepared by: John Stanford, Dave Warren (November 2020)
ED 76, CONCEPTUAL FRAMEWORK – LIMITED-SCOPE UPDATE: PROJECT ROADMAP

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## INSTRUCTIONS UP TO PREVIOUS MEETING

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## DECISIONS UP TO PREVIOUS MEETING

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Approach to Presentation of Basis for Conclusions in ED 76, Limited Scope
Update of the Conceptual Framework for General Purpose Financial Reporting by
Public Sector Entities: Phase 1, Measurement

Questions
1. Which approach do you support to the presentation of the basis for conclusions (BC) in ED 76,
Limited Scope Update of the Conceptual Framework for General Purpose Financial Reporting by
Public Sector Entities: Phase 1, Measurement?

Recommendations
2. In accordance with Board Sponsor and Staff recommend that:
   • In order to ensure that there is a record of the Board’s decisions on conceptual issues no paragraphs from the BC of the original IPSASB Framework should be completely deleted;
   • Superseded BC paragraphs should be moved to a separate appendix after the revised BC; and
   • Additional agreed BC paragraphs should be added to the relevant BC sections to which they relate rather than being consolidated at the end of the BC.

Background
3. In order for members, TAs and observers to access new and additional BC paragraphs easily, in agenda papers these paragraphs have been consolidated after the draft revised paragraphs for the core text and the BC in the original Conceptual Framework. This paper considers options for the presentation of new BC paragraphs in ED, 76.

Options
4. Board Sponsor and Staff have identified four options:
   (b) Retain the original BC and include BC paragraphs for new proposals as a separate section immediately following the original BC (i.e., how presented in Agenda Item 4.3.1).
   (c) Retain the original BC and add new paragraphs to sections where changes are proposed such as the deletion of measurement bases (market value, replacement cost, cost of release and assumption price) and the introduction of new measurement bases (fair value and current service value);
   (d) Move superseded BC paragraphs to a separate appendix after the revised BC and include additional agreed BC paragraphs in the relevant BC sections to which they relate; or
   (e) Delete and do not retain the BC sections and paragraphs explaining the rationale for decisions which have been superseded and insert revised paragraphs; or

5. Staff and the Board Sponsor think that it is important that the original BC is retained so that the development of the Board’s thinking since the publication of the IPSASB Framework in 2014 is transparent.

6. Staff and the Board Sponsor also think that it is more user-friendly to insert new BC paragraphs in the sections to which they relate rather than as a separate section at the end of the original BC.
7. Staff and the Board Sponsor therefore recommend option (c). The approach is illustrated in Appendices A-C. If the Board agrees with this recommendation the BC will be formatted to reflect this approach and reviewed by the Editorial Group.

**Decision Required**

8. Does the IPSASB agree with the Board Sponsor and Staff recommendations in paragraph 2?
APPENDIX A

INSERTION OF NEW SECTION (MEASUREMENT HIERARCHY AS EXAMPLE. CURRENT TEXT IN PRECEDING AND SUBSEQUENT SECTIONS SHADED)

BC7.8 The IPSASB also notes that the disadvantages of using different measurement bases may be minimized by:

- Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and
- Requiring transparent presentation and disclosure to ensure that the measurement bases used and the amounts reported on each basis are clear.

The Measurement Hierarchy

BC7.8A The measurement chapter of the Framework published in 2014 did not explicitly distinguish measurement levels. The IASB’s Conceptual Framework for Financial Reporting distinguishes three different measurement levels:

(a) Measures or Categories of Measurement Bases (the latter term is used in Basis for Conclusions)

(b) Measurement Bases

(c) Measurement Techniques

BC7.8B The IPSASB considered that distinguishing different levels, and building on the IASB’s approach, would clarify the development of measurement requirements and guidance and provide a versatile analytical Framework. Because the distinction between measures and measurement bases might be ambiguous the following three levels were adopted for the IPSASB Framework and the draft IPSAS, Measurement:

(a) Measurement Models: are the approaches to the presentation of assets or liabilities.

(b) Measurement Bases: provide the information that best meets the qualitative characteristics under the model selected.

(c) Measurement Techniques: are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis.

BC7.8C In identifying measurement models and measurement bases the IPSASB reaffirmed its view that there is not a single measurement basis that best meets the measurement objective and, consistent with this view, that there is not one model that best meets the measurement objective. Consequently, the IPSASB identified the historical cost model as one of the two models. and retained historical cost as a measurement basis for both assets and liabilities.
BC7.8D The IPSASB considered whether to identify and discuss measurement techniques in the Framework. The IPSASB concluded that detailed guidance on measurement techniques is better consolidated at standards level, specifically the (draft IPSAS) ED 77, Measurement. In its discussion of the measurement hierarchy, the Framework explains that measurement techniques are needed in order to operationalize current value measurement bases without going into detail on specific techniques. The draft IPSAS ED 77, Measurement, discusses measurement techniques in more detail and provides draft application guidance.

**Initial and Subsequent Measurement**

BC7.9 A measurement basis needs to be selected both when an asset or liability is recognized for the first time—initial measurement—and when it is reported in the financial statements of a later period—subsequent measurement. Some accounting policies are expressed in a way that may suggest that different principles apply to initial and subsequent measurement. For example, an asset may initially be recognized at transaction price and subsequently at a current value. The IPSASB therefore considered whether the Conceptual Framework should discuss initial and subsequent measurement separately.
APPENDIX B

INSERTION OF NEW SECTION (ASSUMPTION PRICE AS EXAMPLE WITH TEXT OF PRECEDING PARAGRAPH SHADED)

BC 7.41 The IPSASB acknowledges that such an approach is intended to provide useful information. However, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, Elements in Financial Statements, and Chapter 6, Recognition in Financial Statements. The IPSASB also accepted that, in cases where, it is impossible or very costly to obtain a valuation, it is important that the information to be provided through disclosures is carefully considered at standards level.

Measurement Bases for Liabilities

Assumption Price

BC7.42A Assumption price is an entity-specific measurement basis and is not currently used in the IPSASB literature at standards level. It has some similarities to current cost for liabilities, as defined by the IASB in its 2018 Conceptual Framework, but refers to a liability of a counterparty, rather than a liability of the reporting entity.

BC7.42B The IPSASB considered the case for retention of assumption price. Some consider that it is appropriate when the government is taking on liabilities at concessionary rates, for example guarantees to banks to facilitate lending to businesses adversely affected by economic crises, and for measuring reinsurance liabilities. This case was reflected in paragraph BC7.42 of the 2014 Framework. The inclusion of assumption price (along with cost of release) was on the grounds that there may be limited circumstances where it might meet the measurement objective.

BC7.42C In the limited scope project to update the Framework the IPSASB acknowledged that assumption price is highly relevant to insurance accounting. At the time of the updating of the Framework the IPSASB did not have a standard on insurance and had no plans to develop one.

BC7.42D The IPSASB concluded that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit, potentially material. In many cases fair value is likely to be a more appropriate measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.
### Measurement Bases for Liabilities

#### Assumption Price and Cost of Release

**BC7.42** The IPSASB acknowledged the views of those who noted that, as many services are provided by public sector entities in non-exchange transactions there will often not be an assumption price. The IPSASB accepted that the circumstances under which assumption price will meet the measurement objective are limited. However, insurance and similar obligations, such as financial guarantees, are liabilities where assumption price might provide relevant and faithfully representative information. In such cases liabilities might be revalued at assumption price to reflect changes in risk premiums following initial recognition.

**BC7.43** Some respondents to the Exposure Draft also questioned whether cost of release should be included. The IPSASB acknowledged that in many cases in the public sector, particularly for non-exchange transactions, there is unlikely to be a cost of release, because there will not be an external party willing to accept the transfer of a liability from the obligor for a specified amount. Even where a cost of release can be determined the external party is unlikely to accept a sum lower than cost of fulfillment in settlement. Therefore, liabilities arising from non-exchange transactions are likely to be measured at the cost of fulfillment, and this will often be the only practical and relevant measurement basis. Nevertheless, the IPSASB decided to retain assumption price and cost of release as measurement bases in the Conceptual Framework as there may be limited circumstances where these measurement bases meet the measurement objective.
Communicating of Board Decision on Net Selling Price

Questions
1. Does the IPSASB agree with the two-pronged approach in paragraph 2 to communicating how the likely rise in importance of distress sales in a COVID-19 environment should be addressed in the IPSASB literature, following the Board decision not to retain net selling price as a measurement basis for assets in ED 76, *Limited Scope Update of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1, Measurement*?

Recommendation
2. Board Sponsor and Staff recommend that:
   - The IPSASB adopt the section of the BC on net selling price in paragraphs BC 7.66-7.68.
   - The reasons for not retaining net selling price as a measurement basis for assets should be discussed in the ‘At A Glance’ summary for ED 76 and ED 77, *Measurement (joint ‘At A Glance’)*

Background
3. At its September 2020 meeting the Board decided that net selling price should not be retained as a measurement basis for assets. The Board directed Staff to consider the best approach to communicating how the likely rise in importance of distress sales due to the COVID-19 pandemic should be addressed in the IPSASB literature, following the Board decision.

Analysis
4. Staff has strengthened the BC section on net selling price that was in the September agenda papers. The revised section draws on the Board’s recent discussions in the project on the disposal of non-current assets and discontinued operations, which culminated in the approval of ED 79, *Non-Current Assets Held for Sale and Discontinued Operations*. In accordance with the Board’s directions ED 79 did not include net selling price as an alternative to fair value less costs to sell in the determination of recoverability. ED 79 will be issued along with other EDs on measurement and ED 76. The BC emphasizes that fair value measures are more likely to enhance accountability than those provided by net selling price and concludes that retention of net selling price is unnecessary.

Decision Required
5. Does the IPSASB agree with the Board Sponsor and Staff recommendation in paragraph 2?
Overview of Changes to, ED 76, Limited Scope Update of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1, Measurement

Question
1. Have the decisions of the Board been reflected in ED 76, Limited Scope Update of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1, Measurement?

Recommendation
2. Staff recommend that the IPSASB considers the revised ED 76 with a view to approval.

Background
3. At its June and September 2020 meetings the IPSASB made a number of directions and provided instructions with an impact on the preliminary version of draft ED 76 These directions and instruction arose from both the Limited Scope Update of Conceptual Framework and Measurement projects and are listed in Agenda Item Subsequently, the IPSASB have further instructions relating to value in use at the October meeting.

Analysis
4. The main changes from 2014 Framework are:
   • Introduction of the Measurement Hierarchy;
   • Introduction of ‘current service value’ as a measurement basis for assets;
   • Introduction of ‘fair value’ as a measurement basis for assets and liabilities;
   • Deletion of ‘market value’, ‘replacement cost’ and ‘net selling price’ as measurement bases for assets;
   • Deletion of ‘market value’ ‘cost of release’ and ‘assumption price’ as measurement bases for liabilities; and
   • Introduction of a revised more general section on ‘value in use’ with descriptions rather than a definition.

Decision Required
5. Does the IPSASB agree with the Staff recommendation in paragraph 2?
Specific Matters for Comment

Question
1. Does the IPSASB agree with the Specific Matters for Comment (SMCs) proposed for [draft] Exposure Draft (ED) 76, Limited Scope Update of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1, Measurement?

Recommendation
2. Staff and Board Sponsor recommend including the six SMCs identified in paragraph 3.

Analysis
3. Staff has developed the following SMCs for inclusion in ED 76. The SMCs were developed in conjunction with the SMCs recommended as part of the Measurement project (Agenda Item 3.2.6).

(a) Measurement hierarchy

Specific Matter for Comment 1
- ED 76 proposes the addition of a measurement hierarchy. Do you agree with the three-tier hierarchy? If not, why not? How would you modify it?

(b) Inclusion of fair value

Specific Matter for Comment 2
- Do you agree with the proposed inclusion of fair value in the Conceptual Framework? If not, why?

(c) Inclusion of current service value

Specific Matter for Comment 3:
- Do you agree with the proposed inclusion of current service value in the Conceptual Framework? If not, why?

(d) Modified approach to value in use

Specific Matter for Comment 4:
- It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the previous section on VIU. This is because the applicability of VIU is limited to impairments. Do you agree with this proposed change? If not, why not? How would you approach VIU instead and why?

(e) Deletion of measurement bases

Specific Matter for Comment 5:
- Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework? If not, which would you retain and why?
  - Market value for assets and liabilities
  - Replacement cost
(f) Other Issues

Specific Matter for Comment 6

- Are there any other issues relating to the Conceptual Framework that you would like to highlight?

Decision Required

4. Does the IPSASB agree with the Board Sponsor and Staff recommendation in paragraph 2?
Approval of ED 76, Limited Scope Update of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1, Measurement?

Question

1. Does the IPSASB approve ED 76, Limited Scope Update of the Conceptual Framework for General Purpose Financial for exposure subject to any relevant issues arising from the finalization of ED 77, Measurement, ordering of Basis for Conclusions and the normal editorial process?

Recommendation

2. Board Sponsor and Staff recommend that ED 76 is approved for exposure on a six-month consultation.

Due Process

3. The IPSASB approved a project brief for the Limited Scope Update of the Conceptual Framework in March 2020. The Consultative Advisory Group discussed and gave comments on an earlier draft version of the project brief at its December 2019 meeting.

Next Steps

4. The core text and application guidance will be reviewed by an editorial group in early Q1 2021. The editorial group will also review ED 77, Measurement, and provide assurance on consistency between the two documents.

Decision Required

5. Does the IPSASB agree with the Board Sponsor and Staff recommendation in paragraph 2?
Supporting Documents 1 – ED 76, Limited Scope Update of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1, Measurement

1. Guidance in [draft] IPSAS X, Measurement (ED 77) is based on Chapter 7 of The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Framework) in the 2020 IPSASB Handbook. Text has been updated to reflect:

(a) IPSASB decisions made in June, September and October 2020;
(b) IPSASB instructions made in June, September and October 2020; and
(c) Staff recommendations proposed in this Agenda Item 4.

REVIEW INSTRUCTIONS:

IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 77:

(a) Authoritative Text (Core Text and Application Guidance):

  (i) A significant portion of ED 76 is imported from Chapter 7 of the Framework in the 2020 IPSASB Handbook.

  (ii) Changes made to Chapter 7 are tracked and based on Board Decisions or Instructions to Staff provided in previous meetings.

These components are formatted as follows for easier reference:

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<td>Text</td>
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<td>Track changes</td>
<td>Text changed resulting from Board Decisions, comments from respondents, staff recommendation from October 2020 is tracked</td>
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CHAPTER 7: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

Introduction

7.1 This Chapter identifies the measurement concepts that guide the IPSASB in the selection of measurement bases for IPSAS and by preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in IPSAS.

The Objective of Measurement

7.2 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.

7.3 The selection of a measurement basis for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:

- The cost of services provided in the period in historical or current terms;
- Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and/or
- Financial capacity—the capacity of the entity to fund its activities

7.4 The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.

The Measurement Hierarchy

7.5 There are three levels of measurement:

- Measurement Models
- Measurement Bases
- Measurement Techniques
<table>
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<th><strong>NOTES</strong></th>
<th><strong>DRAFT ED 76, Conceptual Framework – Limited-Scope Update</strong></th>
<th><strong>Original Source</strong></th>
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<td>Hierarchy diagram changed to remove value in use.</td>
<td>[Models] Historical Cost Models</td>
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<tr>
<td></td>
<td>Bases</td>
<td>Current Value Models</td>
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<tr>
<td></td>
<td>Techniques</td>
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<tr>
<td>Minor changes to standardize terminology on initial and subsequent measurement.</td>
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7.6 **Measurement models** are the approaches to the presentation recognition of assets and liabilities in the financial statements.

7.7 Under the historical cost model assets and liabilities are presented recognised at historically based amounts, which are derived from the actual or estimated price of the transaction or event that gave rise to them. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous for liabilities.

7.8 Under the current value model assets and liabilities are presented using information updated to reflect price changes at the reporting date.

7.9 **Measurement bases** provide the information that best meets the qualitative characteristics (QCs) under the model selected.

Initial recognition measurement is at transaction price or deemed cost where transaction price does not meet the QCs qualitative characteristics or there is no transaction price.

Under the hierarchy at subsequent measurement is either at historical cost or at there may be cases where IPSASB specifies that a current value measurement basis is required under the historical cost model and where a historical cost measurement basis provides an adequate proxy for a current value amount under the current value model. Under the current value model selection of a measurement basis will depend on whether an asset is held for operational capacity or financial capacity.

For a liability, selection of a measurement basis depends on factors such as whether the timing and amount of settlement is certain at the measurement date.

7.10 **Measurement Techniques** are methods to estimate the amount at which an asset or liability is presented under the
The Selection of Measurement Models and Measurement Bases

7.11 It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a conceptual level. Therefore, the Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities in order to meet the measurement objective. In order to meet the objective, it may be necessary to select measurement bases under different models, for example in assessing the recoverability of the carrying amount of an asset.

7.12 The following measurement bases for assets are identified and discussed in terms of the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity, and the extent to which they provide information that meets the qualitative characteristics:

- Historical cost;
- Fair value;
- Current service value-cost and
- Value in use.

7.13 In addition, there is a discussion of Value in use is discussed later in the Chapter, which is not defined due to its applicability but is not included in this list because of its use is limited to impairment.

7.14 The following measurement bases for liabilities are identified and discussed in terms of (a) the extent to which they contribute to determining the cost of services, the information they provide about the operating capacity of an entity and the financial capacity of an entity and the extent to which they contribute to determining the cost of services; and (b) the extent to which they provide information that meets the qualitative characteristics:

- Historical cost;
- Cost of settlement fulfillment; and
Entity-Specific and Non-Entity Specific Measures

7.147.15 Measures may be classified according to whether they are “entity-specific” or “non-entity-specific”. Measurement bases that are entity-specific reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement/fulfilment of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks that are not experienced by to which other entities are not exposed. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measure is taken by reference to the measurement objective and the qualitative characteristics.

Tables 1 and 2 summarize the measurement bases for assets and liabilities in terms of whether they are entity-specific or non-entity specific.

### Table 1: Summary Classification of Measurement Bases for Assets as Entity or Non-entity Specific

<table>
<thead>
<tr>
<th>Measurement Basis</th>
<th>Entity or Non-entity Specific</th>
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<tbody>
<tr>
<td>Historical cost</td>
<td>Entity-specific</td>
</tr>
<tr>
<td>Fair value</td>
<td>Non-entity specific</td>
</tr>
<tr>
<td>Current cost</td>
<td>Entity-specific</td>
</tr>
<tr>
<td>Service value</td>
<td>Non-entity specific</td>
</tr>
</tbody>
</table>

### Table 2: Summary Classification of Measurement Bases for Liabilities as Entity or Non-entity Specific

<table>
<thead>
<tr>
<th>Measurement Basis</th>
<th>Entity or Non-entity Specific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical cost</td>
<td>Entity-specific</td>
</tr>
<tr>
<td>Cost of fulfilment/settlement</td>
<td>Entity-specific</td>
</tr>
<tr>
<td>Market value in open, active and orderly market</td>
<td>Non-entity specific</td>
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<tr>
<td>Framework paragraphs 7.8 to 7.9 are deleted to reflect Board Decision June 2020 (Agenda Item 6.2.8).</td>
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<td>Higher-level discussion of entry and exit below</td>
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<td>Framework paragraph 7.10 is deleted to reflect IPSASB instruction in June 2020 to on entry/exit values. See June Agenda Item 6.2.8).</td>
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<tr>
<td>Discussion on observable/unobservable deleted as relevant to measurement techniques</td>
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<tr>
<td>Framework paragraph 7.11 was moved above Paragraph 7.15 to reflect IPSASB instruction in June 2020</td>
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**Entry and Exit Values**

7.16 **Measurement bases provide either entry or exit values.** For assets, entry values reflect the cost of purchase. Exit values reflect the economic benefits from sale. An exit value also reflects the amount that will be derived from use of the asset prior to sale.

7.17 **For liabilities entry values relate to the transaction or event under which an obligation is incurred.** Exit values reflect the amount required to fulfill an obligation.

7.18 **Identifying whether measurement bases provide entry or exit values supports the determination of the approach**
to transaction costs. Entry-based measurement bases will normally include the transaction costs on acquisition or development of an asset and on the incurring of a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or settlement or transfer of a liability.

7.197.20 In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate the costs are compared with the benefits.

7.207.21 Historical cost for an asset is: The consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

7.217.22 Historical cost is an entity-specific value. Under the historical cost model assets are initially reported at the cost incurred on their acquisition. Subsequent to initial recognition measurement, this cost may be allocated as an expense to reporting periods in the form of depreciation or amortization for certain assets, as the service potential or ability to generate economic benefits provided by such assets are consumed over their useful lives. Consistent with the historical cost model, following initial recognition measurement, the carrying amount of an asset is not changed to reflect changes in prices.

7.227.23 Under the historical cost model the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset have diminished due to changes in economic or other conditions, as distinct to their consumption. This involves an assessments of recoverability. Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements (excluding price increases for unimproved
### Cost of Services

Paragraph 7.24 is amended Framework paragraph 7.16. Paragraph numbering sequence retained following September decision not to modify measurement objective.

**Paragraph 7.24** Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire or develop assets consumed in the provision of services. Historical cost generally provides a direct link to the transactions actually undertaken by the entity. Because the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the cost of assets when the assets are consumed. As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition are significant. Where budgets are prepared on the historical cost basis, historical cost information demonstrates the extent to which the budget has been executed.

### Operational Capacity

**Paragraph 7.25** If an asset has been acquired in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their acquisition cost. At the time an asset is purchased or developed, it can be assumed that the value to the entity of its service potential is at least as great as the cost of purchase. When depreciation or amortization is recognized it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services are at least as great as the amount at which they are stated. Increases in the value of an asset are not reflected under the historical cost model. If an asset has been acquired in a non-exchange transaction the transaction price will not provide information on operating capacity that meets the **qualitative characteristics**.

### Financial Capacity

**Paragraph 7.26** The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be received on sale of an asset, and reinvested in assets to provide different services. Historical
cost does not provide this information when significantly different from current exit values.

Application of the Qualitative Characteristics

Paragraphs 7.24-7.26 explain the areas where historical cost provides relevant information in terms of its confirmatory or predictive value. Application of historical cost is often straightforward, because transaction information is usually readily available. As a result amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that is, the cost to acquire or develop an asset based on actual transactions. Estimates of depreciation and impairment used in the historical cost model, particularly for non-cash-generating assets, can affect representational faithfulness. Because application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are verifiable, understandable and can be prepared on a timely basis.

Historical cost information is comparable to the extent that assets have the same or similar acquisition dates. Because historical cost does not reflect the impact of price changes, it is not possible to compare the amounts of assets that were acquired at different times when prices differed in a meaningful way.

In certain circumstances the application of historical cost necessitates the use of allocations—for example where:

- Several assets are acquired in a single transaction;
- Assets are constructed by the entity itself and overheads and other costs have to be attributed; and
- The use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held. To the extent such allocations are arbitrary they reduce the extent to which the resulting measurement achieves the qualitative characteristics.

Measurements under the current value model reflect the economic environment prevailing at the reporting date.

There are two main current value measurement bases for assets:
Board Decisions in June 2020 (Agenda Item 6.2.4) and September 2020 (Agenda Item 7.2.17).

Additional paragraph to note that value in use is discussed after consideration of fair value and current service value.

This section is revised to replace market value with fair value to reflect Board Decision in June 2020 (Agenda Item 6.2.3).

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### Fair Value

**Paragraph 7.33**

Fair value for assets is:

The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

**Paragraph 7.34**

At acquisition, market value, fair value, and historical cost will be the same, if transaction costs are ignored and the transaction is an exchange transaction. The extent to which fair value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded. Fair value is particularly appropriate where the asset is being held primarily for its ability to generate economic benefits or with a view to sale.

**Paragraph 7.35**

In principle, fair value measures provide useful information because they fairly reflect the value of the asset to the entity. In an open, active and orderly market (see...
Paragraph 7.36 is Framework paragraph 7.27.

The usefulness of fair value is more questionable when the assumption that markets are open, active and orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired. Fair value is appropriate for assets that are held for trading, such as certain financial instruments, but may not be useful for specialized operational assets that an entity intends to continue to use for service delivery. Furthermore, while the purchase of an asset provides evidence that the value of the asset to the entity is at least as great as its purchase price, operational factors may mean that the value to the entity may be greater. Hence market values of fair value may not reflect the value to the entity of the asset, represented by its operational capacity. Therefore fair value is not useful for operational assets that an entity intends to continue to use for service delivery.

Open, Active and Orderly Markets

Open, active and orderly markets have the following characteristics:

- There are no barriers that prevent the entity from transacting in the market;
- They are active so there is sufficient frequency and volume of transactions to provide price information; and
- They are orderly, with many well-informed buyers and sellers acting without compulsion, so there is assurance of “fairness” in determining current prices—including that prices do not represent distress sales.

An orderly market is one that is run in a reliable, secure, accurate and efficient manner. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies and securities where prices are publicly available. In practice few, if any, markets fully exhibit all of these characteristics, but some may approach an orderly market as described.

Fair value where it cannot be assumed that markets are open, active and orderly
Paragraph 7.38 is amended Framework paragraph 7.29.

Markets for assets that are unique and rarely traded are not open, active and unlikely to be orderly: any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. In such circumstances it is necessary to use a measurement technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. Such techniques are determined at standards level.

Paragraph 7.39 is amended Framework paragraph 7.31.

Fair value permits a return on assets to be determined. However, public sector entities do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidized terms. Consequently, there may be limited relevance in a reported return derived from fair value.

Framework paragraph 7.32 is no longer necessary based on Board Decision regarding market value in June 2020 (Agenda Item 6.2.3).

Paragraph 7.40 is a replacement of Framework paragraph 7.30.

Revenue from services reported in financial statements is measured on the basis of prices current in the reporting period. If assets used to provide services are measured at fair value, the allocation of the cost of assets to reflect their consumption in the current reporting period is based on the current market value of the asset. Fair value reflects the price expected to be received to sell an asset. Therefore, it provides less useful information for the cost of services than current service value, which reflects the remaining service potential provided by an asset.

Paragraph 7.41 is Framework paragraph 7.33. amended to reflect

The usefulness of information on the fair value of assets held to provide services in future periods is limited. However, if an exit-based fair value is significantly lower than historical cost, market-fair value is likely to be less relevant than the historical cost of such assets in providing...
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Information on operational capacity—fair value is also likely to be less relevant than current cost/service value.

**Financial Capacity**

Paragraph 7.42 is Framework paragraph 7.34.

An assessment of financial capacity requires information on the amount that would be received on sale of an asset. This information is provided by fair value.

**Application of the Qualitative Characteristics**

Paragraph 7.43 is Framework paragraph 7.35. Revised to address 6.2.8.

Values determined in open, active and orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics—that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. Because it can be prepared quickly, such information is also likely to be timely.

The extent to which fair value measures meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, fair value is only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity.

### Current Cost/Service Value

Paragraph 7.45 is a new paragraph replacing 7.37.

Current cost/service value is:

The cost of an asset that provides equivalent service potential at the measurement date. The estimated amount required to replace the service potential of an asset at the measurement date.

Paragraph 7.46 is a new paragraph replacing Framework paragraph 7.38

Current cost/service value differs from fair value because:

- It is based on an asset’s existing use, and, unlike fair value, does not reflect its highest and best use.
Unlike fair value it assumes that an asset will continue to be used for service delivery rather than that it will be sold.

In a public sector context it reflects the cost of replacing the service potential of an asset;

It includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and

It is entity specific and therefore reflects the economic position of the entity, rather than the perspective of a hypothetical market participant. For example, the current cost-service value of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually.

Because entities usually acquire their assets by the most economic means available, current service value cost reflects the procurement or construction process that an entity generally follows. Current cost-service value reflects the replacement of service potential in the normal course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.

Current cost-service value is the cost of replacing an asset’s service potential. Current cost-service value adopts an optimized approach and differs from reproduction cost, which is the cost of acquiring an identical asset. Although in many cases the most economic replacement of the service potential will be by purchasing an asset that is similar to that which is controlled, current cost service value is based on an alternative modern equivalent asset if that alternative modern equivalent would provide the same service potential more cheaplyefficiently. For financial reporting purposes, it is therefore necessary to reflect the difference in service potential between the existing and replacement modern equivalent asset.

The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service capacity to deal with contingencies. Therefore, the current cost-service value of an asset.

There may be cases where current service value cost equates to reproduction cost. This is where the most economic way of replacing service potential is to reproduce the asset.
asset reflects reductions in required service capacity. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for current and reasonably foreseeable requirements, the current **service value cost** of the asset is **based on** that of a school for 100 pupils.

Paragraph 7.50 is **amended** Framework paragraph 7.42

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<th>Cost of Services</th>
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<td><strong>7.497.50</strong></td>
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<td><strong>7.497.51</strong></td>
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<th>Operational Capacity</th>
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<td><strong>7.507.53</strong></td>
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<td>Framework paragraph 7.45</td>
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<td>provide services in future periods, as it is focused on the current value of assets and their service potential to the entity.</td>
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<td>Framework paragraph 7.46</td>
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<td>Framework paragraph 7.48</td>
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<tr>
<td>Framework paragraph 7.49-57 are deleted (see September 2020 Agenda Item 7.2.20)</td>
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### Value in Use

7.547.57 **Value in use** for a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its disposal at the end of its useful life. This requires a discounted cash flow technique. Such requirements and guidance are provided at standards level.

*The present value to the entity of the asset’s remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.*

7.557.58 **Value in use** in a non-cash-generating context is the remaining service potential at the measurement date. The estimation of service potential requires the use of techniques, which are dependent on the nature of the asset and, because of its applicability to impairment, the indicator of impairment. Such guidance is provided at standards level.

### Suitability of Value in Use

7.59 Value in use is an entity-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. It therefore differs from fair value less costs to sell, which reflects market expectations on sale proceeds. As noted in paragraph 7.42 above, the value that will be derived from an asset is often greater than its replacement current cost—it is also usually greater than its historical cost. Where this is the case, reporting an asset at its value in use is of limited usefulness, as by definition, the entity is able to secure equivalent service potential at replacement current cost.
61 are deleted because guidance on net selling price was removed (see September 2020 Agenda Item 7.2.20)

Framework paragraph 7.62 is deleted to reflect option (b) in Agenda Item 4.2.X for value in use.

Framework paragraph 7.63 is deleted to reflect option (b) in Agenda Item 4.2.X for value in use.

New paragraphs 7.60-7.62 inserted in order to explain reasons why VIU’s applicability is limited to impairment.

7.62 Value in use is an appropriate measurement basis for the assessment of certain impairments, because it is used in the determination of the recoverable amount for an asset or group of assets.

7.63 Because of its potential complexity, its limited applicability and the fact that its operationalization in a public sector context for non-cash-generating assets involves the use of replacement cost as a surrogate, value in use is generally inappropriate for determining the cost of services. Its usefulness to assessments of operational capacity is limited, and is only likely to be significant in the atypical circumstances where entities have a large number of assets that are not worth replacing, but their value in use is greater than their net selling price (fair value less costs to sell). This may be the case if, for example, an entity will discontinue provision of a service in the future, but the proceeds of immediate sale are less than the service potential embodied in the assets. Value in use does involve an estimate of the net amount that an entity will receive from disposal of the asset. However, its limited applicability reduces its relevance for assessments of financial capacity.

7.56-7.59 Value in use for cash-generating assets is complex and subjective as it requires the projection of cash flows from an entity perspective. Further complexity arises where assets are deployed in combination with other assets. In such cases value in use can be estimated only by calculating the present value of the cash flows of a group of assets, rather than discretely, and then making an allocation to individual assets. Such allocations may be arbitrary.

7.60 Value in use for non-cash-generating asset is also complex as it requires the use of surrogate measurement bases or
Due to these factors value in use in both a cash-generating and non-cash-generating context is only applicable to accounting for losses or gains related to impairment. Because of its potential complexity, its limited applicability and the fact that its operationalization in a public sector context for non-cash-generating assets involves the use of a surrogate, value in use is generally inappropriate for determining the cost of services. Its usefulness to assessments of operational capacity is limited, and is only likely to be significant in the atypical circumstances where entities have a large number of assets that are not worth replacing, but their value in use is greater than fair value less costs to sell. This may be the case if, for example, an entity will discontinue provision of a service in the future, but the proceeds of sale are less than the service potential embodied in the assets. Value in use does involve an estimate of the net amount that an entity will receive from disposal of the asset. However, its limited applicability reduces its relevance for assessments of financial capacity.

**Application of the Qualitative Characteristics**

While value in use may be used in assessments of impairments its relevance for financial reporting purposes is limited to the circumstances outlined in paragraph 7.61 above.

The extent to which value in use meets the other qualitative characteristics depends on how it is determined. In some cases, an asset's value in use can be quantified by calculating the value that the entity will derive from the asset assuming its continued use. This may be based on the future cash inflows related to the asset, or on cost savings that will accrue to the entity through its control of the asset. The calculation of value in use takes into account the time

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3. See below paragraph 7.XX.
7.66 The calculation of value in use can be complex. Assets that are employed in cash-generating activities often provide cash flows jointly with other assets. In such cases value in use can be estimated only by calculating the present value of the cash flows of a group of assets and then making an allocation to individual assets.

7.67 In the public sector, most assets are held with the primary objective of contributing to the provision of services, rather than to for the generation of a commercial return; such assets are referred to as “non-cash-generating assets.” Because value in use is usually derived from expected cash flows, its operationalization in such a context can be difficult. It may be inappropriate to calculate value in use on the basis of expected cash flows, because such a measure would not be faithfully representative of the value in use of such an asset to the entity. Therefore, it is necessary to use replacement cost as a surrogate for financial reporting purposes.

7.68 The method of determining value in use reduces its representational faithfulness in many cases. It also affects the timeliness, comparability, understandability and verifiability of information prepared on a value in use basis.

### Measurement Bases for Liabilities

#### Historical Cost

7.597.63 Historical cost for a liability is:

> The consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

#### Cost of Fulfillment

7.607.64 Under the historical cost model initial measures are adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of a discount or amortization of a premium.
<table>
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<th><strong>NOTES</strong></th>
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<tr>
<td>Paragraph 7.65 is Framework paragraph 7.72</td>
<td><strong>7.647.65</strong> Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant—the amount of the future payment is discounted so that, at the time a liability is first recognized initially measured, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.</td>
<td>Framework Chapter 7</td>
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<tr>
<td>Paragraph 7.66 is Framework paragraph 7.73</td>
<td><strong>7.627.66</strong> The advantages and drawbacks of using the historical cost basis for liabilities are similar to those that apply in relation to assets. Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is also unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.</td>
<td>Framework Chapter 7</td>
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**Cost of Fulfillment**

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<th><strong>NOTES</strong></th>
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| Paragraph 7.67 is Framework paragraph 7.74 | **7.67** Cost of fulfillment is:  
*The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.* | Framework Chapter 7 |
| Paragraph 7.68 is Framework paragraph 7.75 | **7.637.68** Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner. | Framework Chapter 7 |
| Paragraph 7.69 is Framework paragraph 7.76 | **7.647.69** Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work |

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itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the obligation.

Paragraph 7.70 is Framework paragraph 7.77

Where fulfillment will be made by the entity itself, the fulfillment cost does not include any surplus, because any such surplus does not represent a use of the entity’s resources. Where fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity’s resources—this is consistent with the approach for assets, where replacement cost current service value would include the profit required by a supplier, but no profit would be included in the replacement cost current service value for assets that the entity would replace through self-construction.

Paragraph 7.71 is Framework paragraph 7.78

Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the reporting date.

Paragraph 7.72 is Framework paragraph 7.79

Cost of fulfillment is generally relevant for measuring liabilities except in the rare circumstances where:

- The entity can obtain release from an obligation at a lower amount than cost of fulfillment; or
- A liability assumed for consideration, and that consideration.

This section is revised to reflect Board Decision in June 2020 that market value is not a basis (Agenda Item 6.2.3)

Fair Value

Paragraph 7.73 is amended Framework paragraph 7.80

Fair value for liabilities is:

The amount which would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Paragraph 7.74 is amended

The advantages and disadvantages of fair value for liabilities are the same as those for assets. Such a measurement basis may be appropriate, for example, where
the liability is attributable to changes in a specified rate, price
or index quoted in an open, active and orderly market.
However, in cases where the ability to transfer a liability is
restricted and the terms on which such a transfer might be
made are unclear the case for fair value, is significantly
weaker. This is particularly the case for liabilities arising from
obligations in non-exchange transactions, because it is
unlikely that there will be an open, active and orderly market
for such liabilities.

Framework paragraph 7.82-
7.86 are deleted (see September
2020 Agenda Item 7.2.18)

Framework paragraph 7.87-
7.91 are deleted (see September
2020 Agenda Item 7.2.19)
This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

The Role of Measurement in the Conceptual Framework

The IPSASB decided that the initial focus of the Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, Measurement of Assets and Liabilities in Financial Statements (the Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it.

The Objective of Measurement

The IPSASB considered whether a specific measurement objective should be developed. The IPSASB initially took the view that a separate measurement objective was unnecessary, because a measurement objective might compete with, rather than complement, the objectives of financial reporting and the qualitative characteristics. Accordingly, Exposure Draft, Measurement of Assets and Liabilities in Financial Statements (the Exposure Draft), proposed factors relevant to the selection of a measurement basis consistent with the objectives of financial reporting and the qualitative characteristics, but did not include a measurement objective.

Consistent with this approach the Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements—in particular, it would allow the amounts of different assets and liabilities to be aggregated to provide meaningful totals. However, the IPSASB is of the 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 Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:

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

Many respondents, while generally in favor of the approach in the Exposure Draft, supported the Alternative View. The IPSASB also acknowledges the view that the Conceptual Framework’s approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement basis underpinned by an ideal concept of capital\(^4\). The IPSASB accepts that the operating capability concept is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.15–BC7.19, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.

Subsequently the IPSASB was persuaded by the views of those who argue that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the

\(^4\) Such concepts of capital include invested money capital, current cash equivalents and operating capability.
IPSASB notes that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to financial capacity and operational capacity. The IPSASB concluded that linking a measurement basis to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard-setting in the public sector.

**BC7.7** The IPSASB considered whether the measurement objective proposed in the Alternative View was appropriate. Some argued that the proposed measurement objective was too aligned to current value measures. However the IPSASB formed a view that the reference to “cost of services” provides a sufficient link to historical cost, because the cost of services can be determined using both historical cost and current value measures. The IPSASB therefore adopted the following measurement objective with only a minor modification from that proposed in the Alternative View:

*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.*

**BC7.8** The IPSASB also notes that the disadvantages of using different measurement bases may be minimized by:

- Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and
- Requiring transparent presentation and disclosure to ensure that the measurement bases used and the amounts reported on each basis are clear.

**Initial and Subsequent Measurement**

**BC7.9** A measurement basis needs to be selected both when an asset or liability is recognized for the first time—initial measurement—and when it is reported in the financial statements of a later period—subsequent measurement. Some accounting policies are expressed in a way that
may suggest that different principles apply to initial and subsequent measurement. For example, an asset may initially be recognized at transaction price and subsequently at a current value. The IPSASB therefore considered whether the Conceptual Framework should discuss initial and subsequent measurement separately.

BC7.10 One reason why different measurement bases may be specified for initial and subsequent measurement is that the basis to be used for subsequent measurement is not available at the time of initial measurement. This is particularly common in the public sector where assets are sometimes contributed, or provided on subsidized terms, or in exchange for other non-cash assets. In such a case the value of the transaction may be unknown, and if the asset is to be subsequently accounted for at an entry value such as historical cost or replacement cost, another basis has to be specified for initial measurement as a surrogate for the amount at which the asset would be stated if purchased on arm's-length terms. Surrogates may also be required for the initial measurement of assets acquired before the introduction of accrual accounting where the transaction price is not known. The use of surrogates that meet the measurement objective and the qualitative characteristics is an application of a measurement basis rather than a departure from it.

BC7.11 Another reason for an apparent difference in initial and subsequent measurement arises where an asset is to be accounted for at a current value, and the transaction price is deemed to reflect the particular current measurement basis that will be used. In such a case, specifying that the asset is to be initially recognised at transaction price makes it clear that that application of the policy will not result in the recognition of revenue and expense on initial recognition—“day one” gains or losses. In principle, the same measurement basis is used for both initial and subsequent recognition—the requirements for each are specified differently in order to assist understanding.

BC7.12 The IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement. Accordingly the discussion in this Chapter is applicable to both situations.

**Entry and Exit Values: Value in Use**
Measurement bases can be classified according to whether they provide an entry or exit perspective. As discussed in paragraph 7.8 entry values reflect the cost of purchase and exit values reflect either:

- The economic benefits from immediate sale; or
- The amount that will be derived from the asset from its use and subsequent sale.

The IPSASB is of the view that awareness of whether a measurement basis is an entry or exit value is useful in determining which measurement basis best meets the measurement objective.

The IPSASB considered whether value in use should be classified as an entry value or an exit value. For a cash-generating asset value in use involves a discounted cash flow model using expected cash flows from the sale of good and services. For non-cash-generating assets value in use uses replacement cost as a surrogate—replacement cost is an entry value. This led some to express a view that for a non-cash-generating asset value in use has an entry perspective while an asset is being used and an exit perspective when sold—in this view a failure to indicate that value in use contains both entry and exit perspectives does not reflect public sector circumstances. The IPSASB acknowledges this view, but does not think that the use of replacement cost as a surrogate to calculate value in use means that value in use becomes an entry value. The IPSASB therefore concluded that value in use is an exit value for both cash-generating and non-cash-generating assets.

Measurement Bases for Assets

Historical Cost

BC7.15 Historical cost is a widely applied measurement basis in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost. They also noted that, because historical cost is widely adopted in combination with other measurement bases, its continued use avoids the costs that would arise if a future revision of a current
standard that requires or permits historical cost were to require the use of a different measurement basis.

BC7.16 Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is particularly important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.

BC7.17 The IPSASB agrees that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity, and accepts that users are interested in the cost of services based on actual transactions. Historical cost provides information on what services actually cost in the reporting period, rather than what they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.

BC7.18 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results and the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that where this is the case historical cost enhances comparison against budget.

BC7.19 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both decision making and accountability purposes. Because historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.

Market Value and Fair Value

BC7.20 The Exposure Draft did not propose fair value as a measurement basis. Rather it proposed market value, which was defined in the same way as fair value in the
IPSASB's literature at the time the Conceptual Framework was developed. A number of respondents challenged the omission of fair value as a measurement basis. They pointed out that fair value is a measurement basis that is defined and used in specifying measurement requirements by many global and national standard setters and that a definition of fair value had been used extensively in IPSASB's literature. Many supporters of fair value considered that the definition should be an exit value as defined in International Financial Reporting Standards (IFRS). 5

BC7.21 The IPSASB's rationale for the approach proposed in the Exposure Draft was that fair value is similar to market value and the inclusion of both measurement bases could be confusing to users of financial statements. The IPSASB also noted that fair value in IFRS is explicitly an exit value—unlike the definition of fair value in the IPSASB's literature at the time the Conceptual Framework was developed. Therefore, the relevance of fair value in the public sector is likely to be primarily limited to providing information on financial capacity, rather than on providing information on operating capacity and the cost of services. In addition, in this chapter replacement cost is a measurement basis in its own right, rather than a valuation technique to determine fair value.

BC7.22 In the public sector many assets are specialized and differences in entry and exit prices are therefore significant. Where an asset will provide future services or economic benefits with a greater value than the asset's exit price, a measure reflecting exit values is not the most relevant basis. Where the most resource efficient course is to sell the asset—because the value of the services that it will provide or the expected cash flows from use is not as great as the value receivable from sale, the most relevant measurement basis is likely to be net selling price, which reflects the costs of sale and, although likely to be based on market evidence, does not assume the existence of an open, active and orderly market.

BC7.23 In considering the merits of fair value as a measurement basis, the IPSASB accepted that fair value provides a relevant basis for assessing a financial return. Where assets are stated at fair value, financial performance can

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5 IFRS 13, *Fair Value Measurement*, provides the definition of fair value.
be assessed in the context of the return implicit in market values. However, public sector activities are not generally carried out with a view to obtaining a financial return, so the relevance of assessing any such return is limited.

<table>
<thead>
<tr>
<th>BC7.24</th>
<th>In finalizing the measurement chapter the IPSASB considered three main options in dealing with this issue:</th>
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<tr>
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<td>● Adopt an exit value-based definition of fair value;</td>
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<td></td>
<td>● Retain the definition of fair value in IPSAS prior to the development of the Conceptual Framework; or</td>
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<td></td>
<td>● Include market value, rather than fair value, as a measurement basis as proposed in the Exposure Draft.</td>
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| BC7.25 | Adopting an exit value-based definition of fair value would have meant using a definition that is not well aligned with the objectives of most public sector entities—the delivery of services rather than the generation of cash flows. It is questionable whether exit value-based measures would provide relevant information for many assets held for their operational capacity and for liabilities where it is not feasible to transfer the liability. |

| BC7.26 | Including the IPSASB’s current definition of fair value or a slightly modified version of that definition in the Conceptual Framework would have meant that two global standard setters would have different conceptual definitions of the same term. |

| BC7.27 | The IPSASB acknowledged that not including fair value as a measurement basis would have implications for the IPSASB’s extant literature at the time the Conceptual Framework was finalized, because a number of IPSAS’s contained fair value in measurement requirements or options. |

| BC7.28 | On balance, the IPSASB concluded that, rather than include an exit value-based definition of fair value, or a public sector specific definition of fair value, the Conceptual Framework should include market value as a measurement basis rather than fair value. The IPSASB sees fair value as a model to represent a specific measurement outcome. The IPSASB may carry out further work at standards level to explain how the measurement bases in this chapter align with fair value, as implemented in IFRS. |
**Replacement Cost, Net Selling Price and Value in Use**

**BC7.29** Because, the objective of public sector entities is to deliver services, often in non-exchange transactions, rather than to make profits many non-financial assets are held for operational purposes. Furthermore, many of these assets are specialized and unlikely to be purchased or sold in open, active and orderly markets. Market value facilitates an assessment of financial capacity and operational capacity where operational assets are not specialized and are traded in open, active and orderly markets. However, current measurement bases other than market value are necessary in order to provide useful information on the cost of services and operational capacity where assets are specialized and where market-based information is limited.

**BC7.30** In evaluating measurement bases that provide the most useful information for specialized operational assets the IPSASB sought a basis that reflects the continuing provision of goods and services by public sector entities. The most appropriate basis for such assets is one that provides information on the cost of service potential that is attributable to an asset.

**BC7.31** The IPSASB considered reproduction cost as a potential measurement basis. Reproduction cost is easily understandable. However, it reflects the cost of obtaining an identical asset, rather than the cost of replacing the service potential provided by an asset. Therefore, reproduction cost may reflect features of assets that no longer serve any economic purpose and its use may exaggerate the value of an asset. Replacement cost avoids this risk because it is based on the most economic cost required for the entity to replace the service potential of an asset. While accepting that the calculation of replacement cost may in some cases be complex and involve subjective judgments, the IPSASB concluded that replacement cost is the current value measurement basis that often best meets the measurement objective and achieves the qualitative characteristics. The IPSASB acknowledged that guidance will be necessary at standards level on the approach to implementation of replacement cost.

**BC7.32** The IPSASB acknowledged that replacement cost will not always be an appropriate measurement basis for
specialized operational assets. There may be circumstances where an entity no longer intends to continue to operate an asset. In such circumstances replacement cost is not a useful measurement basis, because it would not be rational for the entity to replace the service potential provided by an asset. The IPSASB therefore considered the appropriate measurement basis for such circumstances. Under these circumstances an entity-specific measurement basis that reflects the constraints on sale for an entity and provides an exit value is more appropriate. The IPSASB concluded that net selling price best meets the measurement objective. Net selling price is therefore included as a measurement basis in this chapter. Net selling price also provides information that meets the measurement objective, where an entity is contractually required, or in a binding arrangement, to sell an asset at below market value, perhaps in order to meet a social or political objective.

| BC7.33 | In order to provide a complete analysis of the circumstances under which public sector entities operate, the IPSASB also considered the situation where it would not be rational for an entity to seek to replace the service potential embodied in an asset, but it is still more rational for the entity to continue to operate the asset than to sell it immediately. Value in use includes the cash flows or service potential from continued operation of the asset and the proceeds of sale. The IPSASB therefore concluded that value in use should be included as a potential measurement basis. The IPSASB acknowledged that this measurement basis is not straightforward to operationalize in a non-cash-generating context, and that, in determining value in use, it might therefore be necessary to use replacement cost as a surrogate. |

### Fair Value Model

| BC7.34 | As indicated in paragraph BC7.20 the Exposure Draft did not propose fair value as a measurement basis in its own right. However, it proposed the fair value measurement model as a method of estimating a measurement where it had been determined that market value is the appropriate measurement basis, but the market is inactive or otherwise not open or orderly. |

| BC7.35 | A minority of respondents to the Exposure Draft supported the fair value measurement model. Some of these respondents thought that the IPSASB should provide |
further details of its application. Others were supportive of
the model, but suggested that a detailed measurement
model would be inappropriate for the Conceptual
Framework—some of these respondents considered that
it should be addressed as a standards-level estimation
technique. Many respondents put forward a view that fair
value should be proposed as a measurement basis in its
own right using the IFRS definition, while others wanted
more detail on approaches to estimating fair value to
complement its adoption as a measurement basis.
Conversely, other respondents expressed a view that fair
value is inappropriate for the public sector.

BC7.36 The IPSASB found the views of those who considered the
fair value model too low level for the Conceptual
Framework persuasive. The IPSASB also accepted the
view of those respondents who felt that not defining fair
value as a measurement basis, but reintroducing fair
value through the model was confusing. The IPSASB
therefore decided not to include the fair value model in the
final chapter.

Deprival Value Model

BC7.37 The Consultation Paper discussed the deprival value
model as a rationale for selecting a current value basis.
Some respondents expressed reservations—in particular
that the model would be costly and impose a
disproportionate burden on preparers to have to consider
three possible measurement bases for each asset that is
reported. A number of respondents also considered that it
is overly complex. A view was also expressed that the
deprival value model unduly exaggerates the qualitative
characteristic of relevance and neglects the other
qualitative characteristics.

BC7.38 Although the IPSASB recognized that the deprival value
model has been adopted successfully in some
jurisdictions, the IPSASB acknowledged such reservations
in whole or part. The IPSASB therefore included the
deprival value model in the Exposure Draft as an optional
method of choosing between replacement cost, net selling
price, and value in use where it had been decided to use a
current measurement basis, but the appropriate basis
could not be identified by reference to the objectives of
financial reporting and the qualitative characteristics.
Although a minority of respondents to the Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model’s complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model—if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the deprival value model in the Conceptual Framework. However, some of the insights provided by the model in its analysis of the relationship between replacement cost, net selling price and value in use have been retained—for example, that it is inappropriate to measure an asset at replacement cost if the higher of net selling price or value in use is lower than replacement cost.

**Symbolic Values**

In some jurisdictions certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.

The IPSASB acknowledges that such an approach is intended to provide useful information. However, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, *Elements in Financial Statements*, and Chapter 6, *Recognition in Financial Statements*. The IPSASB also accepted that, in cases where, it is impossible or very costly to obtain a valuation, it is important that the information to be provided through disclosures is carefully considered at standards level.
Measurement Bases for Liabilities
Assumption Price and Cost of Release

BC7.42 The IPSASB acknowledged the views of those who noted that, as many services are provided by public sector entities in non-exchange transactions there will often not be an assumption price. The IPSASB accepted that the circumstances under which assumption price will meet the measurement objective are limited. However, insurance and similar obligations, such as financial guarantees, are liabilities where assumption price might provide relevant and faithfully representative information. In such cases liabilities might be revalued at assumption price to reflect changes in risk premiums following initial recognition.

BC7.43 Some respondents to the Exposure Draft also questioned whether cost of release should be included. The IPSASB acknowledged that in many cases in the public sector, particularly for non-exchange transactions, there is unlikely to be a cost of release, because there will not be an external party willing to accept the transfer of a liability from the obligor for a specified amount. Even where a cost of release can be determined the external party is unlikely to accept a sum lower than cost of fulfillment in settlement. Therefore, liabilities arising from non-exchange transactions are likely to be measured at the cost of fulfillment, and this will often be the only practical and relevant measurement basis. Nevertheless the IPSASB decided to retain assumption price and cost of release as measurement bases in the Conceptual Framework as there may be limited circumstances where these measurement bases meet the measurement objective.

Other Issues

BC7.44 The Consultation Paper sought the views of respondents on the following two issues related to measurement:

- The treatment of an entity’s own credit risk and changes in value attributable to changes in an entity’s own credit risk; and
- Whether the measurement of an asset should reflect only the service potential relating to its existing use, or whether the measurement of an asset should include the incremental value relating to its possible alternative use.
The majority of respondents who commented on these issues considered that they were more appropriately dealt with at standards level rather than in the Conceptual Framework. The IPSASB concurred with this view, and these issues are accordingly not addressed in the Conceptual Framework. The IPSASB noted that where a market value is used to measure a liability it is necessary to consider the treatment of the entity's own credit risk.

**Revisions to Conceptual Framework arising from Limited Scope Update Project**

Reasons for Amending Conceptual Framework *(Note that approach to insertion of new Basis for Conclusions paragraphs to be determined see Agenda Item 4.2.X.)*

**BC7.46** *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Framework) was approved in September 2014 and issued in October 2014. Publication of the Framework filled a major gap in the IPSASB’s literature. Until 2014 the IPSASB had been implicitly reliant on the former International Accounting Standards Committee’s (IASC) *Framework for the Preparation and Presentation of Financial Statements*, which was published in 1989. The International Accounting Standards Board (IASB) adopted this document shortly after its inception in April 2001.

**BC7.47** On approval in September 2014 the IPSASB decided not to commit to a review of the Framework at that time. Although views were expressed that the Framework should be a ‘living document’ subject to regular updates there was a broader view that it should be allowed to ‘bed down’ for a significant period. The decision also reflected the amount of Board time devoted to the Framework, particularly in the four to five years prior to approval, and, to a lesser extent, that over-frequent updates might diminish the accountability of the Board, which is one of the purposes of the Framework.

**BC7.48** In 2018, after having been applied in standards development for over three years the IPSASB considered that a limited scope update review of the Framework would be appropriate. This view was reinforced by the fact that the IASB was shortly to issue its finalized Conceptual Framework reflecting post-2014 developments of potential
The Measurement Objective

The Framework includes a measurement objective, which is separate from, but complementary to, the objective of financial reporting in Chapter 2 of the Framework. In the view of the IPSASB, the measurement objective has been one of the more influential features of the IPSASB Conceptual Framework.

BC7.49 The IPSASB’s approach to measurement has developed since publication of the Framework. In particular, the starting point for evaluating optimal current value measurement requirements subsequent to initial recognition is to determine whether an asset is held for operational capacity or financial capacity. Because the IPSASB’s reporting model is on a modified assets and liabilities basis, the determination of the purpose for which an asset is held impacts the information provided as inputs to the cost of services. The IPSASB amended the measurement objective as follows to reflect the sequence of the decision-making process (new wording underlined, and old wording struck out):

BC7.50—To select those measurement bases that most fairly reflect the cost of services, entity’s operational capacity and financial capacity of the entity and thereby provide inputs to information on the cost of services in a manner that is useful in holding the entity to account, and for decision-making purposes.

The Measurement Hierarchy

BC7.54 BC7.49 The measurement chapter of the Framework published in 2014 did not explicitly distinguish measurement levels. The IASB’s Conceptual Framework
for Financial Reporting distinguishes three different measurement levels:

(a) Measures or Categories of Measurement Bases (the latter term is used in Basis for Conclusions)

(b) Measurement Bases

(c) Measurement Techniques

BC7.52 The IPSASB considered that distinguishing different levels, and building on the IASB’s approach, would clarify the development of measurement requirements and guidance and provide a versatile analytical Framework. Because the distinction between measures and measurement bases might be ambiguous the following three levels were adopted for the IPSASB Framework and the draft IPSAS, Measurement:

(a) Measurement Models: are the approaches to the presentation of assets or liabilities.

(b) Measurement Bases: provide the information that best meets the qualitative characteristics under the model selected.

(c) Measurement Techniques: are methods to estimate the amount at which an asset or liability is presented under the selected measurement basis.

BC7.51 In identifying measurement models and measurement bases the IPSASB reaffirmed its view that there is not a single measurement basis that best meets the measurement objective and, consistent with this view, that there is not one model that best meets the measurement objective. Consequently, the IPSASB identified the historical cost model as one of the two models. and retained historical cost as a measurement basis for both assets and liabilities.

BC7.52 The IPSASB considered whether to identify and discuss measurement techniques in the Framework. The IPSASB concluded that detailed guidance on measurement techniques is better consolidated at standards level, specifically the (draft IPSAS) ED 77, Measurement. In its discussion of the measurement hierarchy, the Framework explains that measurement techniques are needed in order to operationalize current value measurement bases without going into detail on
specific techniques. The draft IPSAS ED 77, *Measurement*, discusses measurement techniques in more detail and provides draft application guidance.

**Entry and Exit Values and Observability in a Market**

**BC7.55** The 2014-version of the Conceptual Framework classified measurement bases as:

(a) Entity-or non-entity specific,

(b) Whether they are observable or non-observable in a market, and

(c) Whether they provide entry or exit values.

**BC7.56** The IPSASB considered that the distinction between entity and non-entity specific measures and the relationship with the measurement objective and qualitative characteristics is robust as it impacts the selection of a measurement basis and, in particular whether measurement bases reflect the expectations of market participants.

**BC7.57** The IPSASB decided that the characteristic of observability in a market is relevant to selection of a measurement technique once a measurement basis has been selected, rather than directly to the measurement basis. Consistent with the conclusion in paragraph **BC7.53** that detailed guidance on measurement techniques is better consolidated at standards level, the IPSASB decided not to retain a discussion of observability in a market in the Framework, but to refer to the ‘availability of observable data’ as a factor in selection of a measurement technique.

**BC7.58** Entry values reflect the cost of acquisition, while exit values reflect the amount that an entity derives from use of the asset and its disposal. For liabilities entry values reflect the amount at which a liability is incurred and exit values reflect the amount to settle a liability. In rarer cases entry values reflect the amount at which a liability is assumed and exit values reflect the amount to release and entity from an obligation. The IPSASB is of the view that the key factor in selection of a measurement basis is the measurement objective, in particular, whether an asset is held for its operational or financial capacity and the characteristics of a liability. IPSASB concluded that the distinction between entry and exit values is useful.
in deciding whether a measure includes transaction costs, and, if so, whether on acquisition/incurred or disposal/settlement. The Framework therefore includes a high-level discussion on entry and exit values, but does not classify measurement bases as entry or exit.

**Measurement Bases Not in 2014 Conceptual Framework but included in the Revised Framework**

**Fair value**

BC7.59 Fair value and current service value cost are measurement bases that were not included in the Conceptual Framework approved in 2014 but have been included in the revised chapter.

**Current service value**

In addition to market value the 2014 Framework included replacement cost as a current value measurement basis. The IPSASB noted that the IASB’s 2018 Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB took the view considered whether current cost should be adopted as a
current value measurement basis for assets that are primarily held for operational capacity.

The IPSASB formed a view that, in principle, current cost works in a public sector context for both non-specialized and specialized assets held for operational capacity. However, rather than the cost of the asset the IPSASB considered that the focus should be on an assessment of remaining service potential and this should be determined by reference to a modern equivalent asset rather than to an equivalent asset. The IPSASB decided to use the term ‘current service value’ for this measurement basis. Current service value is a versatile measurement basis; as, for non-specialized assets, it can be supported by market-based techniques with similarities to market value. The revised Framework therefore includes current cost service value as a measurement basis for assets held for operational than financial purposes.

The IPSASB considered whether to include current cost as a measurement basis for liabilities, noting that in the IASB’s Framework the definition of current cost includes liabilities as well as assets. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that current cost for liabilities might provide useful information for managerial purposes but considered that the practical application of such a measurement basis is very limited. The IPSASB therefore concluded that current cost for liabilities should not be included in the Framework.

Measurement Bases in original 2014 Conceptual Framework not included in the Revised Framework

The following measurement bases were included in the 2014 Framework, but have not been included in the revised Framework:

- Market value
- Replacement cost
- Net selling price
- Assumption price
- Cost of release
Market Value

BC7.63 In light of the decision to include fair value and current cost, the IPSASB considered whether it was necessary to retain market value as a measurement basis. The IPSASB considers that fair value is the current value measurement basis that best meets the measurement objective where assets are held for financial capacity and for determining the amount of a liability that can be transferred to a third party under current market conditions. Current cost is the current value measurement basis that best meets the measurement objective where assets are held for operational capacity, because it does not include a ‘highest and best use’ assumption and, as an entity-specific measurement basis, does not reflect the expectations of market participants. The IPSASB therefore concluded that it was not necessary to retain market value. Market-based techniques are likely to be used to operationalize the fair value and current cost measurement bases.

Replacement cost

BC7.64 Replacement cost was defined in the 2014 Framework as:

*The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting period.*

BC7.65 In light of the decision to include current service value cost as the most appropriate current value measurement basis for operational assets, IPSASB considered whether it was necessary to retain replacement cost as a measurement basis. The IPSASB considers that the rationale for including replacement cost as a measurement basis in the 2014 version of the Framework is robust, in particular that an appropriate measurement basis for specialized assets should provide information on the cost of service potential that is attributable to the asset. As noted above, current service value cost is a more versatile measurement basis as it can be applied to both non-specialized and specialized assets. Measurement techniques can be selected appropriate to the nature of the asset. The focus on identifying the service potential...
provided by an asset can be used to ensure that the rationale for replacement cost can be sustained.

**Net selling price**

**BC7.66** Net selling price is an entity-specific measurement basis that was defined in the 2014 Framework as:

*The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.*

**BC7.67** In its project on non-current assets and discontinued operations, which led to the issuance of ED 79, *Non-Current Assets Held for Sale and Discontinued Operations*, the IPSASB considered whether net selling price should be included as an alternative measure to fair value less costs to sell in determining recoverability for assets held for disposal where a disposal is on negotiated rather than market terms. The Board rejected inclusion of net selling price, largely on accountability grounds, concluding that a non-entity market-based approach was more appropriate for the determination of recoverability as it meets the qualitative characteristics better than net selling price. In particular, fair value is more understandable and verifiable.

Net realizable value is very similar to net selling price and is defined in IPSAS 12, *Inventories* and only used in that IPSAS:

*The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.*

**BC7.68** The IPSASB acknowledged the case for an entity-specific, current value measurement basis for assets, as an alternative to fair value where there is not an open, active and orderly market, such as a distressed or negotiated sale. In some jurisdictions the covid-19 pandemic has increased the likelihood of such sales. It may be that disposal values will be affected by the impact of covid-19 on general market conditions, which will be reflected in fair value measures. Aside from general price effects, when disposal is estimated to be below fair value it is important that the impact of such a decision on an entity’s financial position and financial performance is made fully transparent by disclosing the extent of the losses likely to be made on sale. This is best achieved by showing the difference between an asset’s fair value
and the expected sale price, consistent with the additional disclosures in ED 79. The IPSASB concluded that, the limited circumstances under which such a measurement basis is used, and is likely to be used in the future, does not justify the inclusion of the strengthened transparency and accountability of this approach, in light of compared with the very limited information that would be presented under a net selling price, its preferred option, as included in ED 79. It also made the retention of net selling price or net realizable value in the IPSASB Framework is unnecessary. Net selling price and net realizable value may be specified at standards-level, as is currently the case for net realizable value in IPSAS 11, Inventories.

Assumption price

BC7.69 Assumption price is:

The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

BC7.70 Assumption price is an entity-specific measurement basis and is not currently used in the IPSASB literature at standards level. It has some similarities to current cost for liabilities, as defined by the IASB in its 2018 Conceptual Framework, but refers to a liability of a counterparty, rather than a liability of the reporting entity.

BC7.71 The IPSASB considered the case for retention of assumption price. Some consider that it is appropriate when the government is taking on liabilities at concessionary rates, for example guarantees to banks to facilitate lending to businesses adversely affected by economic crises, and for measuring reinsurance liabilities. This case was reflected in paragraph BC7.42 of the 2014 Framework. The inclusion of assumption price (along with cost of release) was on the grounds that there may be limited circumstances where it might meet the measurement objective.

BC7.72 In the limited scope project to update the Framework the IPSASB acknowledged that assumption price is highly relevant to insurance accounting. At the time of the updating of the Framework the IPSASB did not have a standard on insurance and had no plans to develop one.

BC7.73 The IPSASB concluded that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited,
albeit, potentially material. In such cases fair value is likely to be a more appropriate measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.

Cost of release

BC7.73 Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would require to accept the transfer of the liability from the obligor.

BC7.74 Cost of release is entity-specific and does not assume an open, active and orderly market. At standards level the measurement requirements and guidance in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, include a grey letter reference to 'transfer(ing) an obligation at the reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. The reference in IPSAS 19.45 is consistent with cost of release.

BC7.75 The IPSASB noted that the IASB had concluded that it was unnecessary to include cost of release in its 2018 Conceptual Framework, because it is relatively unusual for entities to obtain release from liabilities, instead of fulfilling them. The IPSASB was also aware that the IASB had initiated a targeted project in 2020 to consider amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, in three areas. One of these potential amendments is to align the liability definition and requirements for identifying liabilities in IAS 37 with the IASB’s Conceptual Framework. One aspect of such an alignment would be to delete the reference to the transfer of an obligation from IAS 37.

BC7.76 In 2014 Framework justified the inclusion of cost of release (along with assumption price) on the grounds that there may be limited circumstances where it might meet the measurement objective. The IPSASB concluded that standards development since 2014 has not identified sufficient examples of circumstances where cost of release is appropriate to justify retention. The IPSASB therefore decided

Renaming of cost Cost of fulfillment
BC7.77 as cost of settlement

BC7.78 In its 2018 Framework the IASB included fulfilment value defined as:

The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.

BC7.79 In light of this development the IPSASB considered whether to (a) adopt the term ‘fulfilment value’ rather than cost of fulfilment while retaining the original definition of cost of fulfilment (b) adopt the term ‘fulfilment value’ and the definition in the IASB Framework; or (c) another approach.

BC7.80 A number of respondents to the Consultation Paper, Measurement, pointed out highlighted that fulfilment value reflects a risk premium, whereas cost of fulfilment is silent on risk premia. A risk premium, which is also known as a risk margin or risk adjustment, is the price for bearing the uncertainty inherent in the cash flows. The IPSASB concluded that using the term ‘fulfilment value’ with a definition different to that of the IASB was inappropriate. The IPSASB also decided that the inclusion of a risk premium should be determined at standards level.

BC7.81 The IPSASB concluded that the existing definition of cost of fulfilment should be retained. However, the IPSASB acknowledged that the term itself is very similar to fulfilment value, but concluded that provided it is clear that cost of fulfilment does not imply inclusion of a risk premium the term should be retained with its existing definition rather than adopting a new term such as “cost of settlement”. The IPSASB therefore adopted the term ‘cost of settlement’ and in the definition itself changed ‘fulfilling’ to ‘settling’. The revised definition is therefore:

BC7.82 The costs that the entity will incur in settling the obligations represented by the liability, assuming that it does so in the least costly manner.
concluded that the definition of cost of fulfilment should not be modified. It is possible that there may be cases where a reporting entity decides to fulfil an obligation in a manner that is not the least costly. In such circumstances it is important that for accountability purposes there is full disclosure.

**Value in use as a measurement basis or measurement technique**

The IPSASB considered whether value in use (VIU) is a measurement basis, measurement technique, or neither, and whether this depends on the cash-generating or non-cash-generating nature of the asset.

BC7.83 The IPSASB considered three options:

(a) VIU is not a measurement basis for either cash-generating assets or non-cash-generating assets;

(b) VIU is a measurement basis for cash-generating assets, but VIU is not a measurement basis for non-cash-generating assets; or

(c) The current position in IPSASB Framework should be retained with the definition covering both cash-generating assets and non-cash-generating assets.

BC7.84 The IPSASB considered whether to retain value in use as a current value measurement basis for assets in the Framework. VIU requires techniques in order to be operationalized — projecting cash flows and estimating the net amounts of disposal for cash-generating assets and for determining the present value of service potential for non-cash-generating assets. The IPSASB took the view that this militates to VIU being a measurement basis.

BC7.85 The IPSASB noted that the definition in its 2014 Framework was not fully consistent with that in the IASB’s Framework, because it is not limited to the cash-generating context and includes a reference to ‘service potential’. In its standards development since approval of the Framework the IPSASB has placed increased emphasis on the consistent use of terminology and definitions by global standard setters. The advantage of Option (b) is that it would be fully consistent with the IASB Framework and that global standard setters would be using the term in exactly the same way. The disadvantage of Option (b) is that it would remove non-cash-generating
assets from the scope of a measurement basis that is a central aspect of assessing impairments. For most public sector entities for which the IPSASB is designing standards non-cash-generating assets are the majority of property, plant and equipment. Option (c) avoids this deficiency but does create standards-level challenges. Option (c) requires measurement techniques. These may be the income approach for cash-generating assets and cost approach for non-cash generating assets or variants of those approaches.

BC7.85 The IPSASB acknowledged the importance of value in use in assessments of impairment gains and losses. The IPSASB also noted that value is use requires complex and subjective projections of cash flows generated by an asset or of the service potential remaining in an asset. Complexity increases where assets generate cash flows in combination with other assets.

BC7.86 The IPSASB acknowledged that some assets both generate cash flows and are used in the delivery of services. In such circumstances the IPSASB reaffirmed that, for financial reporting purposes, preparers of financial statements need to make a professional judgment of the primary purpose for which an asset is held. The continued applicability of value in use is therefore likely to be limited to impairment.

BC7.86BC7.87 In light of these factors the IPSASB decided to replace the definition of value in use with a limited discussion in the updated Measurement Chapter. The IPSASB concluded that the existing definition of VIU in the IPSASB Framework is not flawed. However, the method of determining VIU in IPSAS 21, Impairment of Non-Cash-Generating Assets, is arguably inconsistent with the IPSASB Framework. This is because the definition of ‘value in use of a non-cash-generating asset’ does not include the proceeds of disposal of the asset at the end of its useful life.

BC7.87BC7.88 The IPSASB also confirmed that detailed guidance and requirements on impairment will continue to be provided at standards level. On balance the IPSASB decided to retain the current definition of VIU, because the advantages of a measurement basis that includes service potential and is therefore relevant to the majority of

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6 Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.
assets held by entities for which IPSASB is developing and maintaining standards, outweigh the practical challenges of operationalizing the measurement basis. It is possible that IPSAS 21 will need to be reopened in the future, because of the inconsistency between IPSAS 21 and the Framework.

Equitable Values and Synergistic Values

BC7.88 The IPSASB considers that the development of conceptual and standards-level work evaluates the requirements and guidance in International Valuation Standards (IVS) and Government Finance Statistics. The IPSASB evaluated two concepts in IVS as potential measurement bases in the IPSASB Framework — synergistic value and equitable value.

BC7.89 IVS defines equitable value as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

BC7.90 IVS defines synergistic value as IVS as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

BC7.91 Equitable value has similarities to net selling price and synergistic value relates to unit of account. The IPSASB has considered the retention of net selling price in the limited scope update of the Framework and plans work on unit of account in the second phase of the limited scope update. The IPSASB therefore concluded that including equitable value and synergistic value as measurement bases in the Framework is unnecessary.