

**Meeting:** International Public Sector Accounting Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** June 21–24, 2022

# Agenda Item 4

For:

Approval

Discussion

Information

## MEASUREMENT

<b>Project summary</b>	The project objective is to revise IPSAS requirements for measurement, provide guidance on measurement and address the treatment of transaction costs and borrowing costs.	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>• David Watkins, IPSASB Technical Advisor (Task Force Chair)</li> <li>• Takeo Fukiya, IPSASB Technical Advisor</li> <li>• Francesco Capalbo, Second University of Naples</li> <li>• Jonathan Fothergill, RICS</li> <li>• Elles Mukunyadze, Public Accountants and Auditors Board (Zimbabwe)</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Measurement: Project Roadmap</a>	<a href="#">4.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">4.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">4.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Preliminary Review of Responses for the Current Operational Value Basis</a>	<a href="#">4.2.1</a>
	<a href="#">Measuring Assets in the Public Sector</a>	<a href="#">4.2.2</a>
	<a href="#">Continue with Current Operational Value Principles</a>	<a href="#">4.2.3</a>
	<a href="#">Core Principles of a Public Sector Measurement Basis</a>	<a href="#">4.2.4</a>
	<a href="#">Renaming the Income Approach</a>	<a href="#">4.2.5</a>
	<a href="#">Instructions from March 2022 Meeting</a>	<a href="#">4.2.6</a>

**MEASUREMENT:  
 PROJECT ROADMAP**

<b>Meeting</b>	<b>Completed Actions or Discussions / Planned Actions or Discussions:</b>
March 2019	1. Approve Consultation Paper and Illustrative Exposure Draft
June 2019 – September 2019	1. Document Out for Comment
December 2019	1. Preliminary Review of Responses to Consultation Paper
March 2020	1. Review of Responses to Consultation Paper 2. Discussion of Issues
June 2020	1. Discussion of Issues
September 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft
December 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft
April 2021 – October 2021	1. Document Out for Comment
December 2021	1. Preliminarily Review of Responses
March 2022	1. Review Responses 2. Discuss Issues
June 2022	1. Review Responses 2. Discuss Issues
September 2022	1. Discuss Issues 2. Develop Pronouncement
December 2022	1. Issue Pronouncement

**INSTRUCTIONS UP TO PREVIOUS MEETING**

Meeting	Instruction	Actioned
December 2021	1. Develop a detailed response analysis for the IPSASB's review in March 2022.	1. See Agenda Item 9.1.2 to the March 2022 meeting.
	2. Frame the public sector measurement basis analysis in the context of the Conceptual Framework Measurement objective and what the IPSASB is trying to achieve in developing the measurement basis.	2. See Agenda Item <a href="#">4.2.2</a> .
March 2022	1. Clarify in the Basis for Conclusions the reason why the cost approach is an appropriate measurement technique to estimate Fair Value.	1. See Agenda Item <a href="#">4.2.6</a> .
	2. Clarify that the income approach is the only technique available to estimate the Cost of Fulfillment in paragraph D22.	2. See Agenda Item <a href="#">4.2.6</a> .
	3. Develop an appropriate reference in [draft] IPSAS [X], Measurement to highlight the disclosure requirements are located in the relevant IPSAS.	3. See Agenda Item <a href="#">4.2.6</a> .
	4. Update the model policy choice guidance as follows: a) Enhance consistency of principles with accounting policy choices guidance in IPSAS 3; b) Remove the word "often" in paragraph BC 23C; c) Clarify the phrase "current economic consumption or not" in paragraph BC 23D.	4. See Agenda Item <a href="#">4.2.6</a> .
	5. Update the historical cost guidance as follows: a) Align the definition of "historical cost" in IPSAS Measurement and the Conceptual Framework as appropriate; and b) Retain the "historical cost" definition proposed in ED 77.	5. See Agenda Item <a href="#">4.2.6</a> .
	6. Clearly indicate whether the reference to "historical cost" is to the model or the basis throughout [draft] IPSAS [X], <i>Measurement</i> .	6. To be completed during the development of the Pronouncement.

**DECISIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Decision</b>	<b>BC Reference</b>
February 2021	1. All decisions made up until February 2021 were reflected in <a href="#">ED 77, Measurement</a> .	1. All decisions made up until February 2021 were reflected in <a href="#">ED 77, Measurement</a> .
March 2022	1. All decisions made during the March 2022 meeting were reflected in <a href="#">ED 77, Measurement</a> .	1. All decisions made during the March 2022 meeting were reflected in <a href="#">ED 77, Measurement</a> .

## Review of Responses for the Current Operational Value Basis

### Purpose

1. To provide the IPSASB with an overview of the responses received for the Current Operational Value (COV) basis.

### Background

2. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 77, *Measurement*. The ED was strongly supported, except the COV proposals, where support was mixed. The IPSASB agreed to focus its resources on the strongly supported sections of the EDs proposals in March, moving its focus to the COV measurement basis in June.
3. As part of a summary analysis provided to the IPSASB at the March meeting, staff indicated that the responses to COV, namely SMCs 5 and 6, were split between:
  - (a) Supporting the principles proposed;
  - (b) Building on the principles proposed; and
  - (c) Departing from the principles proposed.

The split was fairly even with approximately a third of respondents in each category:

**Table 1: Analysis of Responses**

Response	Specific Matter for Comment (SMC)	
	SMC 5	SMC 6
Agree	19 (42%)	16 (36%)
Partially Agree	10 (22%)	11 (24%)
Disagree	16 (36%)	18 (40%)
No Comment	0 (0%)	0 (0%)
<b>Total</b>	<b>45</b>	<b>45</b>

### Analysis

#### *Overarching themes in SMCs 5 and 6*

4. Approximately two-thirds of respondents supported the direction and objective of the COV basis - in particular, the need for a measurement basis designed to measure asset held for their operational capacity. Many of these respondents requested further clarity on how to apply COV and to simplify the principles for understandability. For example, one respondent noted the definition of Fair Value clearly describes how to measure an asset. This does not hold true for COV, which has a conceptual definition requiring an in-depth review of the COV appendix in *ED 77* to understand the concepts.
5. CAG members offered the IPSASB similar advice when COV was discussed at their December meeting. Some members believed the IPSASB had overcomplicated concepts. These members advised the IPSASB to clarify the principles to enhance understandability.

6. Respondents that proposed departing from the COV principles recommended several overarching themes noted in Table 1:

**Table 2: Overarching themes in SMCs 5 and 6**

Overarching Themes	Summary Comments from Respondents and CAG Members <sup>1</sup>
<b>Definition</b>	<p>Many respondents argued that the terms used were vague and could thus be interpreted differently by various stakeholders. Respondents thus encouraged the IPSASB to enhance the clarity of the terms used in the definition, and the associated guidance provided in the Appendix.</p> <p><b>(see paragraph 1(b) and 2(b) in <a href="#">Appendix A</a> of this Agenda Item)</b></p> <p><b>CAG comments:</b> Some CAG Members encouraged further analysis of the definition and COV principles to ensure they can be effectively implemented.</p>
<b>Valuation Practice</b>	<p>Some respondents noted that the use of the income approach to estimate an asset's Current Operational Value is inconsistent with the intention for the Current Operational Value to be an entry value.</p> <p><b>(see paragraphs 1(c) in <a href="#">Appendix A</a> of this Agenda Item)</b></p> <p>Some respondents noted that the detailed calculation of a Current Operational Value may be complex in practice, depending on the availability and comparability of observable inputs.</p> <p><b>(see paragraphs 2(c) in <a href="#">Appendix A</a> of this Agenda Item)</b></p>
<b>Replacement Cost</b>	<p>Some respondents noted that the replacement cost notion should not have been removed from the list of bases in the draft standard. Respondents also noted that an alternative measurement technique is missing that would attempt to calculate the cost to fulfill the same services as the asset does today.</p> <p><b>(see paragraphs 1(d) in <a href="#">Appendix A</a> of this Agenda Item)</b></p> <p><b>CAG comment:</b> Replacement cost may be a more appropriate measurement approach, as it is the cost of replacing the same service potential. Different replacement costs reflect different service potentials, which would improve the comparability of accounting information across different entities.</p> <hr/> <p>Some respondents supported the more precise, cost-based definition of Current Operational Value set out in the Alternative View.</p> <p><b>(see paragraphs 2(d) in <a href="#">Appendix A</a> of this Agenda Item)</b></p>

<sup>1</sup> Comments made by the IPSASB Consultative Advisory Group (CAG) meeting held on December 6, 2021.

Overarching Themes	Summary Comments from Respondents and CAG Members <sup>1</sup>
<b>Additional Guidance and/or Examples</b>	<p>Most respondents requested additional guidance to clarify proposed guidance, provide more examples, or further consider measurement principles, among other topics.</p> <p><b>(see paragraphs 1(e) and 2(e) in <a href="#">Appendix A</a> of this Agenda Item)</b></p>
<b>Public Sector Fair Value</b>	<p>Some respondents are of the view that providing public-sector-specific practical guidance and illustrative examples to help public sector entities apply the principles in IFRS 13, represents a better option than the proposed guidance.</p> <p><b>(see paragraphs 1(f) in <a href="#">Appendix A</a> of this Agenda Item)</b></p> <p><b>CAG comment:</b> Several CAG Members acknowledged there is a need to develop a basis that is different from Fair Value but advised against shaping Fair Value for public sector purposes as it would create confusion and would not represent the difference between operational and financial capacity.</p> <hr/> <p>Many respondents are of the view that the IPSASB has not clearly articulated why COV would be a more appropriate basis to measure the current value of operational capacity assets instead of the IFRS 13 Fair Value measurement basis.</p> <p><b>(see paragraphs 2(f) in <a href="#">Appendix A</a> of this Agenda Item)</b></p> <p><b>CAG comment:</b> Several CAG members noted that a key Fair Value concept, namely, “highest and best use” does not work in the public sector, and it is therefore important to develop public sector-specific measurement principles.</p>
<b>Other Comments</b>	<p>Some respondents noted the practical challenges involved in calculating the Current Operational Value.</p> <p><b>(see paragraphs 1(g) in <a href="#">Appendix A</a> of this Agenda Item)</b></p> <hr/> <p>Some respondents noted that the proposed guidance is not sufficiently clear in respect of restricted assets, surplus capacity, and economic obsolescence, among other topics.</p> <p><b>(see paragraphs 2(g) in <a href="#">Appendix A</a> of this Agenda Item)</b></p>

## Planned Approach

7. The overarching themes identified in Table 2 above have been analyzed throughout this Agenda Item as follows:

Issue	Action
<b>Definition</b>	To be considered in Quarter 3 of 2022 based on the decisions reached in Agenda Item <a href="#">4.2.4</a> .
<b>Valuation Practice</b>	Refer to Agenda Item <a href="#">4.2.2</a> .
<b>Replacement Cost</b>	Refer to Agenda Item <a href="#">4.2.3</a> .
<b>Additional Guidance and/or Examples</b>	Engage the Task Force to consider respondents' requests for examples and propose Implementation Guidance / Illustrative Examples if appropriate.
<b>Public Sector Fair Value</b>	Refer to Agenda Item <a href="#">4.2.3</a> .
<b>Other Comments</b>	To be considered in Quarter 3 of 2022 based on the decisions reached in Agenda Item <a href="#">4.2.3</a> .

## Decision Required

8. No decision required. For information purposes only.

## **Appendix A: SMCs 5 and 6 – High-level themes**

1. Staff identified the following key themes in SMC 5:
  - (a) **General support for the definition of Current Operational Value:** 64% of respondents agreed or partially agreed with the definition of Current Operational Value. As such, staff's analysis of the comments focused on the areas where respondents indicated the need for additional considerations.
  - (b) **Definition:** Some respondents commented that the proposed definition is quite open-ended, and thus requested clarity on the terms used in the definition, and the associated guidance provided in the Appendix. They argued that the terms used were vague and could thus be interpreted differently by various stakeholders. They made the following comments:
    - (i) The term "value of an asset" is vague and could be interpreted differently by various stakeholders.
    - (ii) Appendix B1 references the term "current use of the asset by the entity". The IPSASB should clarify whether "current use" should be interpreted as the asset operating at optimal efficiency and service potential, or in a manner reflecting trends in output over time.
    - (iii) While the term "service delivery objectives" is used in the definition, "objective" is not referred to in the descriptions of other measurement bases. The IPSASB should revise the terms in order to ensure consistency between definitions. The IPSASB should consider the terms "service potential" or "operational capacity" as these terms are already used in other paragraphs in ED77. This would clarify that Current Operational Value is a measurement basis for assets and gives weight to operational capacity rather than financial capacity.
    - (iv) The term "value of an asset" needs to be clearly defined. Respondents commented that defining the value of an asset in terms of productive capacity or service potential is more forward-thinking than the Current Operational Value proposals that take the "existing assets" approach.
  - (c) **Valuation Practice:** Some respondents commented that the use of the income approach as a measurement technique is inconsistent with the intention for the Current Operational Value to be an entry value. They also raised the following concerns:
    - (i) As public sector entities often hold and use assets for their service potential (which enables an entity to achieve its objectives without necessarily generating net cash inflows), using the income technique may cause the asset to be measured at an inappropriately low amount. This will result in the reduction of the asset's value at the measurement date which may not be appropriate when the asset has higher remaining service potential.
    - (ii) Paragraph 6 of ED 77 defines entry price as "the price paid to acquire an asset ... in an exchange transaction". If the sole measurement objective of Current Operational Value is to reflect an entry value of the asset, it would appear that the alternative definition proposed in paragraph AV4 of ED 77 might be better aligned to that measurement objective, because the alternative definition clearly states that Current Operational Value

is “the cost to replace the service potential embodied in an asset at the measurement date”.

- (d) **Alternative Views:** Some respondents supported the Alternative Views to ED 76 and ED 77 developed by IPSASB members Mr. Todd Beardsworth and Mr. Mike Blake with regard to the definition of Current Operational Value, the use of the income approach for measuring Current Operational Value, and lack of clarity about accounting for surplus capacity under Current Operational Value. They raised the following concerns:
- (i) The market approach and cost approach are both suitable techniques, however, an alternative technique may be missing that would attempt to calculate the cost to fulfill the same services as an asset does today. For example, an entity can purchase a fleet of garbage trucks and hire labor to collect garbage. Alternatively, an entity can have garbage collected by a third-party service. This would represent the cost to replace the service (and not the asset).
  - (ii) The replacement cost notion should not have been removed from the list of bases in the draft standard as it is a widely used measurement basis in some jurisdictions.
  - (iii) A public sector measurement basis should place emphasis on the management of the asset to achieve sustainable service delivery, as opposed to the underlying asset that delivers those services. This emphasis supports the service potential approach in the Alternative View. The Alternative View may also help with the eventual incorporation of natural assets in financial statements, as the services delivered by such assets go beyond their use to deliver specific services to individuals and entities.
- (e) **Additional Guidance and/or Examples:** Some respondents requested additional guidance to clarify proposed guidance, and provide more examples, that allow the Current Operational Value definition to be operationalized.
- (f) **Non-Applicability of Current Operational Value:** Some respondents are of the view that departing from the principles within *IFRS 13, Fair Value* will not resolve the interpretative and application issues within the public sector with respect to operational assets that are not primarily held to generate net cash inflows. They believe that interpretation and application issues within the public sector can be more effectively resolved by providing public sector-specific practical guidance and illustrative examples to help public sector entities apply the principles in *IFRS 13, Fair Value*.
- (g) **Other Comments:** Some respondents commented that due to the complexity involved in calculating the Current Operational Value, it is not possible for this work to be the responsibility of the person in charge of the accounting area, since it is necessary to establish interdisciplinary working groups, made up of experts from different specialties.
2. Staff identified the following key themes in SMC 6:
- (a) **General support for the definition of Current Operational Value:** 60% of respondents agreed or partially agreed that the proposed definition of Current Operational Value and the accompanying guidance is appropriate for public sector entities. As such, staff’s analysis of the comments focused on the areas where respondents indicated the need for additional considerations.

- (b) **Definition:** Some respondents commented that the proposed definition is too broad and thus unclear, which increases the risk of different interpretations, and different valuations, of comparable assets used by public sector entities engaged in the same service provision.
- (c) **Valuation Practice:** Some respondents commented that the detailed calculation of Current Operational Value may be complex in practice, and additional illustrative examples should be provided.
- (d) **Alternative Views:** Some respondents supported the view that the focus should be on the cost of replacing an asset that is used for its service potential, reflecting the concept that the measure is an entry value. They made the following comments:
  - (i) The definition of Current Operational Value is unclear. For example, it is not clear what 'value' means and whether this is an entry or an exit price. This makes it difficult to determine the objective of the measurement and the measurement technique that is appropriate.
  - (ii) The definition of Current Operational Value should specifically refer to valuing the "service potential" of the asset rather than referring to the "service delivery objectives".
- (e) **Additional Guidance and/or Examples:** Most respondents requested additional guidance to clarify proposed guidance, and provide more examples, that allow the Current Operational Value definition to be operationalized. They noted that further guidance is required in the following areas:
  - (i) The costs to include when a 'part' rather than the whole asset is replaced. It is not clear to what extent these costs should be included and their impact on the value of the whole asset.
  - (ii) How to account for 'day 1' valuation differences between the transaction price and the valuation.
  - (iii) How to measure disruption costs and the likely elements that should be included. The inclusion of disruption costs is an area of significant judgment and insufficient guidance will lead to inconsistent interpretations and practice.
  - (iv) Whether the valuation of an asset held for service potential should include the 'hypothetical' costs of removal and disposal of the existing asset.
  - (v) How embedded finance costs that are separate to the reporting entity's borrowing costs should be treated.
- (f) **Non-Applicability of Current Operational Value:** Some respondents noted that they are unable to support the proposed COV as a measurement basis for the following reasons:
  - (i) The proposals in ED 77 do not clearly distinguish the differences that exist between the COV and Fair Value measurement bases. Both these bases adopt the same three measurement techniques (market, cost, and income) but the ED does not clearly set out how each of these three measurement techniques would operate under COV.
  - (ii) The measurement objectives that the COV measurement basis seeks to achieve could also be achieved by applying the cost approach in the Fair Value measurement basis.

Hence, they do not see the necessity for introducing a completely new basis of measurement.

- (iii) Introducing COV as a separate measurement basis would be an onerous imposition on preparers and auditors. The potential complexity of having to apply a mixture of measurement bases for the same class of assets and requiring preparers to determine which basis is more appropriate, could result in inconsistent outcomes that may result in financial statements that are less comparable.
- (g) **Other Comments:** Some respondents noted the following comments on various topics:
  - (i) **Restricted Assets:** Guidance should be provided in the instance where the price of an equivalent restricted asset is not obtainable in an orderly market at the measurement date. Given that such public sector assets are often very specific in nature, entities might not be able to determine the “price of an equivalent unrestricted asset, without a reduction for the restrictions”.
  - (ii) **Surplus Capacity and Economic Obsolescence:** The IPSASB should provide a more detailed explanation of why the value of an asset used to achieve the entity's service delivery objectives requires the asset to be measured as if it is being used to full capacity.  
  
Some respondents have noted that if an asset includes genuine surplus capacity that can be separated from the asset and the entity has made a decision to sell the surplus capacity, then the 'surplus' part of the asset should be treated as a separate unit of account and measured as an asset held for its financial capacity.  
  
Some respondents do not believe the guidance is sufficiently clear on how a loss of utility should be treated and whether a loss of utility should be treated as surplus capacity or a reduction in the demand for services.

## **Measuring Assets in the Public Sector**

### **Question**

1. Does the IPSASB agree the underlying physical item (inputs) should be used as the basis for measuring assets in the public sector?

### **Recommendation**

2. Staff recommends the IPSASB retain the proposal in ED 77 that the public sector measurement basis be based on the value of the underlying physical item (inputs).

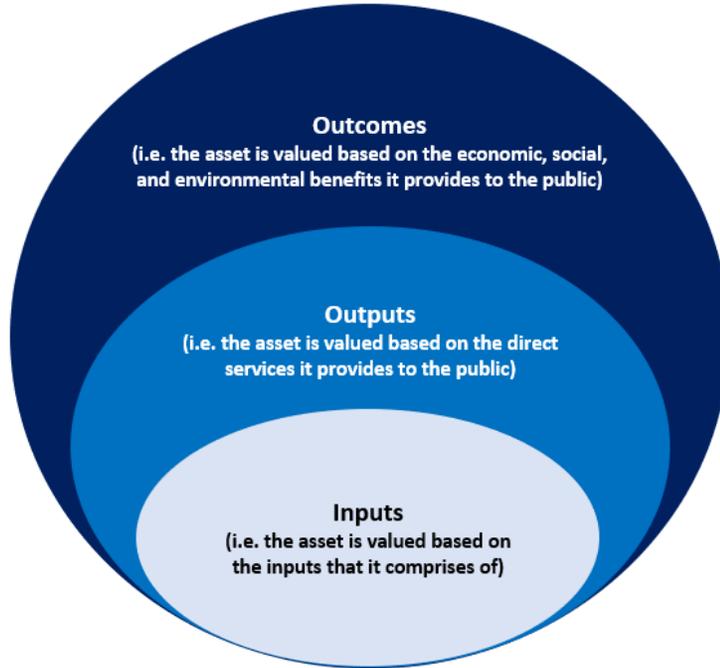
### **Background**

3. Respondents to the April 2019 Measurement Consultation Paper strongly supported the IPSASB's preliminary view that Fair Value is relevant and applicable in measuring some assets and liabilities in the public sector. Constituents' concerns with Fair Value related to the fact that when an item is held for its operational capacity, as is often the case in the public sector, Fair Value is difficult and inappropriate to apply because the following concepts generally are not applicable:
  - (a) Highest and best use; and
  - (b) Maximizing the use of market participant data.
4. While respondents agreed the Fair Value definition proposed is applicable in some circumstances (where assets are held to generate income either through use or sale), they also noted the definition is unlikely to be appropriate as a current value measurement basis in most public sector cases (where assets are held to deliver a service). Respondents expressed the view that a public-sector-specific current measurement basis is required.
5. When assets are held for their operational capacity in the public sector, they are held to achieve a service delivery objective. Holding an asset to meet a service delivery objective often results in an asset being held in a capacity other than that of one that satisfies its highest and best financial use (as required by a Fair Value measurement). For example, an entity may have a service delivery objective to provide medical services in a city center, when the highest and best use of the building or site might be commercial or residential development.
6. In response to constituents' concerns raised in the CP, the IPSASB developed a current value measurement basis unique to the public sector – Current Operational Value (COV). Given Fair Value is applied to items held for their financial capacity, COV was developed specifically for assets held for their operational capacity (for example, property, plant, and equipment).
7. The objective of a COV measurement is to estimate the value of a non-financial asset in achieving the entity's service delivery objectives at the measurement date.
8. As noted in Agenda Item [4.2.1](#), some respondents to ED 77 noted that the proposed COV basis does not adequately capture the public sector value the asset provides (i.e., the service delivery component).
9. As part of the development of COV, the IPSASB considered how to reflect in the measurement practice that public sector assets are held to deliver a service objective. The IPSASB agreed to value the asset based on the inputs that comprise the asset, as opposed to the outputs provided by the

asset, as this valuation would reflect the amount an entity would incur at the measurement date to replace the capacity to achieve its present service delivery objective using its existing assets.

**Analysis**

10. Some respondents indicated COV does not reflect the value of the assets in the way the public sector uses them – i.e., to deliver direct services to the public, and/or to provide a wider community benefit. The community benefits may range across an economic, social, and environmental spectrum, and the quantum of benefits will often depend on the stakeholder being considered.
11. During the development of ED 77, the IPSASB spent considerable time discussing alternatives to capture the value of public sector assets. These discussions focused on whether to measure the service or measure the physical asset. Given this comment was raised by some respondents, staff considered it prudent to revisit the IPSASB decision to measure COV from the perspective of the asset's inputs taking into account additional views and information provided as part of stakeholder responses. In assessing respondents' comments, staff identified three lenses through which the measurement of public sector assets could be viewed:
  - (a) **Outcomes:** This lens values the asset based on the broader economic, social, and environmental benefits the item provides.
  - (b) **Outputs:** This lens values the asset based on the outputs the item is held to provide.
  - (c) **Inputs:** This lens values the asset based on the inputs that comprise the physical item.
12. The 'outcomes' and 'outputs' lenses are particularly relevant in the public sector where entities generally hold assets to deliver a service or provide a wider benefit.



13. To obtain an understanding of the diagram, consider the following example, using the development of a school by a public sector entity, as the asset:

Lens:	Explanation:	School Example:
<b>Outcomes</b>	Valuation measures the indirect benefits of operating the asset.	<p><b>The school is measured based on the value of the broader economic, social, and environmental benefits provided to the public.</b></p> <p>This could be determined based on:</p> <ul style="list-style-type: none"> <li>• The amount GDP increases as a result of an educated society (economic benefits); and/or</li> <li>• The amount saved from decreases in homelessness, crime, etc. as a result of an equal and empowered society (social benefits).</li> </ul>

<sup>2</sup> The diagram has not been drawn to scale. The size of the shape is not indicative of the weighting or importance of the relevant characteristic.

<p><b>Outputs</b></p>	<p>Valuation measures the outputs directly provided by the asset.</p> <p>Valuation focuses on the service associated with the service delivery objective linked with the asset. Ancillary services are excluded.</p>	<p><b>The school is measured based on the value of the education delivered to the public.</b></p> <p>This could be determined based on:</p> <ul style="list-style-type: none"> <li>• The amount required to deliver the education; or</li> <li>• The amount individuals pay or would pay, to receive the education.</li> </ul>
<p><b>Inputs</b></p>	<p>Valuation measures the inputs that comprise the asset.</p>	<p><b>The school is measured based on the value of the building.</b></p> <p>This could be determined based on:</p> <ul style="list-style-type: none"> <li>• The amount required to replace the building;</li> <li>• The amount paid to acquire the building; or</li> <li>• The amount the building could be sold for.</li> </ul>

*Outcomes*

14. An outcomes-based approach is the broadest measurement approach available. It places the emphasis of the valuation on the management of the asset to achieve the desired economic, social, and environmental benefits for a broader group of users than merely the direct users of the services.
15. For example, a school has numerous economic and social benefits that are not captured under the existing measurement bases. The “outcomes” approach considers benefits such as:
  - Reduction of poverty, crime, gender-based violence, and homelessness as a result of an educated society;
  - Increased economic growth as a result of higher salary earners;
  - An equal and empowered society;
  - Good citizenship and civic involvement;
  - Healthier lifestyles;
  - Better career prospects; and/or
  - Attracting homebuyers and increasing property values around the school.
16. Staff have noted that an outcomes-based approach to valuation ties in with the issues being considered by the International Valuation Standards Council (IVSC), with respect to defining and estimating ‘social value’. The concept of ‘social value’ is an area of growing government, public and commercial interest. The IVSC have noted that social value can be confusing for a valuer because the traditional theories of value are being challenged. This requires the valuer to think deeply about the concept of social value, and importantly what the value of these assets and benefits are to both

the owners and wider stakeholder groups (i.e., the public). However, valuers and accountants are not able to define and reliably estimate social value with the degree of certainty required for financial reporting. Pursuing valuations using this lens would result in the asset recognition criteria not being satisfied because an 'outcomes' lens would result in too much uncertainty.

17. The concept of economic, social, and environmental value is in its infancy in many jurisdictions, and as such is prone to challenges as the practice develops. In assessing the feasibility of the development of an appropriate public sector measurement basis that takes a holistic approach to value a public sector asset by measuring its economic, social, and environmental benefits to the wider community, staff is of the view, that an 'outcomes lens' is beyond the scope of the project.

### *Outputs*

18. Since it is not feasible to develop a measurement basis to value assets using an outcomes-based approach, then the next question is whether it is appropriate to measure a public sector asset by considering the outputs associated with the service delivery objectives for which the asset is held. Valuing the outputs, i.e., the services the asset delivers to the public, focuses measurement on why public sector assets are held, to deliver services, which is the fundamental difference between the public and private sector assets. Respondents to the CP and SMCs 5 and 6, noted that a public sector measurement basis should take into consideration the differences between the public and private sectors.
19. An example of measurement focusing on the asset 'outputs' would focus on the service associated with the service delivery objective associated with the asset. Using a school as an example, the school could be measured based on the value of the education delivered to the public. This could be determined based on:
  - (a) The amount required to deliver the education; or
  - (b) The amount individuals pay or would pay, to receive the education.
20. However, an outputs-based measurement is inconsistent with how all other non-financial assets are measured in IPSAS financial statements. Financial statement measurement currently focuses on the physical value of the asset, i.e., the inputs, rather than the value of the services they deliver. Valuing the asset based on the services provided is not well-established, and similar to an 'outcomes'-based approach, an 'outputs-based' approach would result in the asset recognition criteria not being satisfied because there is no well-established method to value the service provided by an asset in a relevant and reliable way.
21. The IPSASB previously rejected the idea of measuring public sector assets based on the value of services they provide during the development of the COV concept in the ED because recognizing the value of the service the asset provides is inconsistent with how all other non-financial assets are measured on the balance sheet.

### *Inputs*

22. Where the outputs and outcomes-based approaches present challenges, the inputs-based approach presents solutions:
  - (a) **Consistent with IPSAS principles.** Non-financial asset measurement throughout the IPSAS suite of standards is based on the value of the physical item (inputs). This is because the value of the item presented in the financial statements must fairly reflect the cost of service,

operational capacity, and the financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (Chapter 7.2 of IPSASB Conceptual Framework). Measurement focusing on the physical item, while held for service delivery, offers a reliable and consistent measurement that is useful to financial statement users. Outputs and outcomes-based approaches are forward-looking, lending themselves to extreme measurement uncertainty as they value an asset based on the value of the future services it could deliver. This is inconsistent with the purpose of financial statements which offer a financial snapshot of an entity at a point in time - this information is historical in nature.

- (b) **Well established.** Given that inputs-based measurements are applied throughout IPSAS, measurement bases from which core principles can be used to develop a public sector measurement basis and measurement techniques that can be used to estimate a public sector measurement basis are well established. The familiarity IPSAS users have with an inputs-based measurement ideology will enhance the consistency and reliability of measurement.
  - (c) **Consistent with ED 77 principles.** An inputs-based measurement was proposed in ED 77. While some respondents encouraged the IPSASB to focus the public sector measurement basis on the public / private sector difference, the majority, approximately two-thirds, of respondents supported the principles proposed.
23. While some respondents encouraged the IPSASB to focus the public sector measurement basis on the public / private sector difference, as noted above, they supported the principles proposed. The additional views provided by respondents allow the IPSASB to evaluate the measurement lens from a different perspective than when the principles in the ED were established (the development of the ED focused on whether measurement should focus on the physical asset, or the service provided).
24. Furthermore, while the IPSASB agreed that the difference between the private and public sectors results in the need for a public sector measurement basis, the public sector difference does not warrant a move away from the inputs-based lens which is applied throughout IFRS and IPSAS.

#### **Recommendation**

25. Staff recommends the IPSASB retain the proposal in ED 77 that the public sector measurement basis be based on the value of the underlying physical item (inputs).

#### **Decision Required**

26. Does the IPSASB agree with Staff's recommendation?

## **Continue with Current Operational Value Principles**

### **Question**

1. Does the IPSASB agree with Staff's recommendation to move forward with Current Operational Value (COV) proposed in ED 77?

### **Recommendation**

2. Staff recommends that the IPSASB move forward with the COV proposals in ED 77.

### **Background**

3. Approximately two-thirds of respondents to Specific Matters for Comment (SMCs) 5 and 6 supported the COV principles proposed in ED 77. Respondents that recommended the IPSASB depart from the principles proposed two alternatives for the IPSASB's consideration:
  - (a) **Public sectorize fair value.** Focus resources on adapting Fair Value for application in the public sector (for example, how is the concept of 'highest and best use' applied in the public sector); or
  - (b) **Use replacement cost:** Use replacement cost to measure assets held for their operational capacity. These respondents suggested replacement cost may be a more appropriate measurement approach, as it is the cost of replacing the same service potential.

### **Analysis**

#### *Public Sectorize Fair Value*

4. Some respondents recommended the IPSASB take the IFRS 13, *Fair Value* principles developed for the private sector and adapt them for the public sector context. Respondents were of the view a public sector Fair Value measurement would provide relevant valuation information for assets held for their service capacity.
5. Respondents that suggested replacing COV with FV suggested two alternatives:
  - (a) **Fair Value can be applied throughout IPSAS.** IFRS 13, *Fair Value* can be applied to all assets held in the public sector. Respondents supporting this view focused on the versatility of a Fair Value measurement and its strong track record in the private sector. Respondents disagreed Fair Value could not be applied to assets held for their operating capacity. These respondents noted that it may be difficult to measure assets held for their operating capacity, at fair value, however, it was nonetheless feasible.

**Staff response.** When the decision was made to develop a public sector measurement basis, the IPSASB did so because they concluded a Fair Value measurement would not provide useful information when Fair Value was used to value assets held for their operational capacity. Valuing an asset held for its operating capacity at its highest and best use will often provide a value that does not reflect the value of the asset in its current use to the public. The IPSASB never concluded it was impossible to determine a fair value measure for public sector assets, but rather the information was not useful when applied to assets held for their financial capacity. This view was strongly supported by respondents to both the CP and ED. Respondents indicated Fair Value was applicable

for assets held for their financial capacity, but not for assets held for their operating capacity.

- (b) **Fair Value should be adapted for the public sector.** Guidance in the Fair Value appendix should be adapted to reflect the unique characteristics of public sector assets. For example, guidance should be developed to assist entities in better understanding how the ‘highest and best use’ and ‘market participants’ concepts should be applied in the public sector context.

**Staff response.** The IPSASB agreed, most recently in March 2022 that the Fair Value principles developed in *IPSAS, Measurement*, should be aligned with those in *IFRS 13, Fair Value*. This decision was exposed in the CP and ED and was supported by more than 90% of ED respondents. The IPSASB agreed to align with IFRS 13 Fair Value because:

- It is applicable to financial statement items that are the same between the public and private sector (for example, assets held for their financial capacity). Respondents strongly agreed; and
- Where there is no transactional difference between the public and private sector, and the private sector guidance is applicable in the public sector, the IPSASB will align with IFRS where appropriate. This was the case for Fair Value as the IFRS 13 definition was already being applied in several IFRS-aligned standards (IPSAS 41, *Financial Instruments* for example).

#### *Use replacement cost*

6. Some respondents to the ED recommended replacing the COV proposals with replacement cost concepts. Under this view, replacement cost is the service potential embodied in the asset used to achieve an entity’s service delivery objectives. Respondents proposed users are interested in the operating capacity of the public sector to provide public benefits and the cost of replacing that capacity if the entity was deprived of it.

**Staff response.** In developing the ED, the IPSASB agreed replacement cost was a measurement technique that could be used to estimate a measurement basis. It was not a measurement basis in its own right. The IPSASB reached this view after respondents to the CP rejected the preliminary view that replacement cost was a measurement basis. Respondents noted there were inconsistencies in the IPSASB’s CP views since replacement cost was proposed as a measurement basis and a measurement technique (the measurement technique supported the Fair Value measurement). Since respondents to the CP strongly supported aligning Fair Value with IFRS, the IPSASB decided departure from IFRS Fair Value was not in the public interest and concluded replacement cost should remain a measurement technique (this is consistent with how replacement cost is applied in the IPSAS suite of standards – it is applied to estimate Fair Value).<sup>3</sup> Respondents to the ED strongly supported alignment with Fair Value again in response to ED 77.

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<sup>3</sup> Replacement cost is used in two IPSAS. Once in IPSAS 17 and once in IPSAS 33. In both circumstances replacement cost is used to estimate Fair Value.

7. Based on staff's analysis, respondents that proposed to **public sectorize fair value** or to **use replacement cost** did not present information the IPSASB had not previously considered, nor did they identify a public sector-specific issue or challenges when applying the COV principles.
8. Furthermore, the COV principles were supported by two-thirds of respondents. These respondents supported the IPSASB's efforts to address measuring assets held for their operational capacity, however, believed that more clarity to make the principles more digestible would be a significant benefit to users of the guidance and would enhance consistency in practice.

**Recommendation**

9. Staff recommends that the IPSASB move forward with the COV proposals in ED 77.

**Decision Required**

10. Does the IPSASB agree with Staff's recommendation?

## **Core Principles of a Public Sector Measurement Basis**

### **Question**

1. Does the IPSASB agree with retaining and clarifying the core principles that underpin the public sector measurement basis set out in this Agenda Item?

### **Recommendation**

2. Staff recommends:
  - (a) Retaining the core Current Operational Value (COV) principles proposed in ED 77; and
  - (b) Clarifying the core principles so they are better understood and implemented by stakeholders.

### **Background**

3. As part of the development of ED 77, the IPSASB addressed key concerns raised in response to the Measurement Consultation Paper (CP) by developing a public-sector-specific measurement basis.
4. This public sector measurement basis, COV, was developed to address a key difference between the public and private sectors:
  - (a) Assets in the public sector are generally held to deliver services (operational capacity), while assets in the private sector are generally held for their ability to generate profits (financial capacity).
5. The IPSASB agreed that a measurement basis unique to the public sector was required because using existing measurement bases developed for the private sector, specifically Fair Value (FV), did not provide users of public sector financial information with an asset value that was relevant for decision making purpose when the asset was held for its operational capacity<sup>4</sup>.
6. Respondents, to both the CP and the ED, strongly supported including Fair Value, aligned with IFRS 13, in the [draft] IPSAS [X], *Measurement*. These respondents agreed with the IPSASB that when items are held for their financial capacity, Fair Value provided relevant information for users to make decisions. However, these respondents also indicated that Fair Value was not appropriate in most public sector circumstances because Fair Value requires an asset to be measured at its highest and best use. Since holding assets for their highest and best use is often not the case in the public sector, where assets are held for the delivery of services, respondents indicated that a FV measure did not reflect the value of the asset to the public sector entity, and therefore did not provide a financial statement user with relevant information.
7. The IPSASB developed the core principles of COV to address the 'highest and best use' issue identified by respondents to the Measurement CP. These principles set a 'current value' measurement context to respond to the constituents' view that a current value measure is necessary to give public sector entities an alternative to the financial-capacity-focused Fair Value measurement.

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<sup>4</sup> The decision to develop a public sector measurement basis was not made because FV could not be applied in all circumstances, it can, only that FV did not provide the most relevant information when applied to assets held for their operational capacity. Respondents agreed and also strongly supported the applicability of FV in the public sector when circumstances are appropriate (i.e., items are held for their financial capacity).

8. ED 77, proposed that the following core principles are necessary for a measurement basis that provides relevant information for assets held in the public sector for their service capacity:
- (a) **Existing Asset.** COV is an asset-specific measurement basis. The focus of the measurement basis is the existing asset held for its service capacity. This approach considers an asset that is presently available, or in operation, rather than the acquisition, development, or construction of an asset that is planned for the future.
  - (b) **Existing Use.** An asset supports an entity in achieving its service delivery objectives in its existing use. Existing use is the current way an asset or group of assets is used. Existing use generally reflects the policy objectives of the entity operating the asset. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. This approach reflects the economic position of the entity, rather than the position prevailing in a hypothetical market.
  - (c) **Existing Location.** An entity is usually required to provide services to a particular set of stakeholders in a particular location. The IPSASB agreed the entity should continue to meet its service delivery objectives from the same location in which the asset is currently situated or used. This is because while it may be possible to deliver the service from another location, it is unlikely to be in the public interest, given that the location where the asset is currently situated, was selected for service delivery needs.

In some circumstances, it might be possible to effectively deliver the required services from a different location, but this would be a separate, future policy decision that should not be taken into consideration when measuring the asset.

### **Analysis**

9. Review of the responses to ED 77, specifically SMC 5 and SMC 6, showed that there was strong support for moving forward with the public sector measurement basis and more importantly, moving forward with the COV principles proposed in ED 77. Two-thirds of respondents either:
- (a) Supported the principles proposed; or
  - (b) Recommended building on the principles proposed.
10. Those respondents that supported the principles, or supported building on the principles both indicated, that while they were encouraged with the steps taken by the IPSASB in developing a public sector measurement basis, more work was needed to make the principles clear, so that they were easy to apply consistently across the public sector. Some examples of further requests for clarity relate to:
- (a) Clarifying the terms used in the definition of COV;
  - (b) Clarifying the conceptual difference between COV and FV;
  - (c) Clarifying the conceptual difference between COV and replacement cost; and
  - (d) Clarifying the conceptual difference between COV and the cost approach in the FV measurement basis.

11. These respondents' requests for clarification are consistent with the advice provided by CAG Members at its December 2021 meeting<sup>5</sup>. CAG Members indicated that they were hard-pressed to easily explain COV. There appeared to be some inconsistencies when considered at a high level. CAG Members encouraged the IPSASB to revisit the principles and aim to provide a COV definition and associated principles that is clear, and easy to understand.
12. In light of the respondent's concerns (refer to Agenda Item [4.2.1](#)), and the CAG Members' advice, Staff have identified the aforementioned core principles that underpin the public sector measurement basis and analyzed their appropriateness as follows:

Core Principles	Analysis
<p><b>Existing Asset</b></p>	<p><b>Is this a principle required for a public-sector-specific measurement basis?</b></p> <p><b>YES.</b> Respondents to the April 2019 Measurement Consultation Paper (CP) requested the IPSASB to develop a current value measurement basis unique to the public sector that provides a measure of assets for which a policy decision has been made to hold the asset for a specific delivery objective. This asset is presently available, or in operation, and is not subject to a future policy decision to acquire, develop, or construct the asset in the future.</p> <p><b>Is this consistent with the approach taken by the valuation community?</b></p> <p><b>YES.</b> Existing Use Value (EUV) is a measurement method used by valuation specialists. EUV measures assets in their existing use.</p> <p>The IPSASB will receive a presentation from a valuation expert, who is on the Measurement Task Force, during the June 2022 meeting to provide further details.</p> <p><b>Do you agree with retaining the 'existing asset' principle?</b></p>
<p><b>Existing Use</b></p>	<p><b>Is this a principle required for a public-sector-specific measurement basis?</b></p> <p><b>YES.</b> A public-sector-specific measurement basis must be able to measure assets held to achieve a service delivery objective (service capacity). Fair Value does not present relevant measurement information for assets held for their service capacity because Fair Value requires assets to be measured at their 'highest and best use'. A public-sector-specific measurement basis must measure assets as they are currently being used to meet the entity's service delivery objectives. This measurement will provide users with the value of the asset to the entity as it is currently being used.</p> <p><b>Is this consistent with the approach taken by the valuation community?</b></p> <p><b>YES.</b> 'Existing use', in the context of Existing Use Value, means that the valuer should disregard uses that would drive the value above that needed to replace the service potential of the property. An entity seeking to replace this potential at least cost will not buy a property if its value has been inflated by bids from other</p>

<sup>5</sup> Comments made by the IPSASB Consultative Advisory Group (CAG) meeting held on December 6, 2021.

Core Principles	Analysis
	<p>potential occupiers for whom the property has greater value because of alternative uses or development potential that are irrelevant to its own requirements (page 64 of RICS Valuation - Global Standards 2017).</p> <p>The IPSASB will receive a presentation from a valuation expert, who is on the Measurement Task Force, during the June 2022 meeting to provide further details.</p> <p><b>Do you agree with retaining the ‘existing use’ principle?</b></p> <hr/> <p><u>Surplus Capacity</u></p> <p>While Staff and the Task Force Chair does not consider ‘surplus capacity<sup>6</sup>’ a core principle, respondents highlighted it as an issue requiring clarity.</p> <p>ED 77 proposes that since COV reflects the value of the asset consumed in providing the service at the prevailing prices, COV assumes the asset is used to its full capacity, subject to any tests for impairment in accordance with IPSAS 21 or IPSAS 26.</p> <p><b>Is this a principle required for a public-sector-specific measurement basis?</b></p> <p><b>YES.</b> While not unique to the public sector, surplus capacity is prevalent in the public sector and requires explicit consideration in a public sector measurement base. Requiring the asset to be measured assuming it is being used at its full capacity is consistent with the ‘existing use’ principle. While the asset is not fully used, for example, a wing of a school is no longer used because of a decrease in population, the public sector entity has elected to use the asset in this way, and it should be valued accordingly.</p> <p><b>Is this consistent with the approach taken by the valuation community?</b></p> <p>The IPSASB will receive a presentation from a valuation expert, who is on the Measurement Task Force, during the June 2022 meeting to provide further details.</p> <p><b>The IPSASB will discuss this issue in the context of the presentation.</b></p>
<p><b>Existing Location</b></p>	<p><b>Is this a principle required for a public-sector-specific measurement basis?</b></p> <p><b>YES.</b> This principle assumes that the entity will continue to meet its service delivery objectives from the same location in which the asset is currently situated or used and is thus associated with a current use measurement. 90% of respondents to SMC 7 agreed or partially agreed with measuring the asset based on the location in which the asset is currently situated or used (that is, respondents agreed that if there is no locational requirement for the asset, the asset’s Current</p>

<sup>6</sup> Surplus capacity exists when an asset is not used to its maximum capacity. For example, an entity owns a building, but only utilizes 80% of the space available. The remaining 20% is left vacant.

<b>Core Principles</b>	<b>Analysis</b>
	<p>Operational Value should assume that the notional replacement will be situated in the same location as the current asset is situated or used).</p> <p><b>Is this consistent with the approach taken by the valuation community?</b></p> <p><b>YES.</b> The location of the asset under valuation, in the context of Existing Use Value, assumes the asset under valuation is valued where it currently is.</p> <p>The IPSASB will receive a presentation from a valuation expert, who is on the Measurement Task Force, during the June 2022 meeting to provide further details.</p> <p><b>Do you agree with retaining the ‘existing location’ principle?</b></p>

13. Focusing on the public sector differences is key to establishing the core public sector measurement principles. Agreeing on the core principles in June 2022 allows staff to move the development of the public sector measurement basis forward and clarify the principles for September 2022.

**Recommendation**

14. Staff recommends:
- (a) Retaining the core Current Operational Value (COV) principles proposed in ED 77; and
  - (b) Clarifying the core principles so they are better understood and implemented by stakeholders.

**Decision Required**

15. Does the IPSASB agree with Staff’s recommendation?

## Renaming the Income Approach

### Question

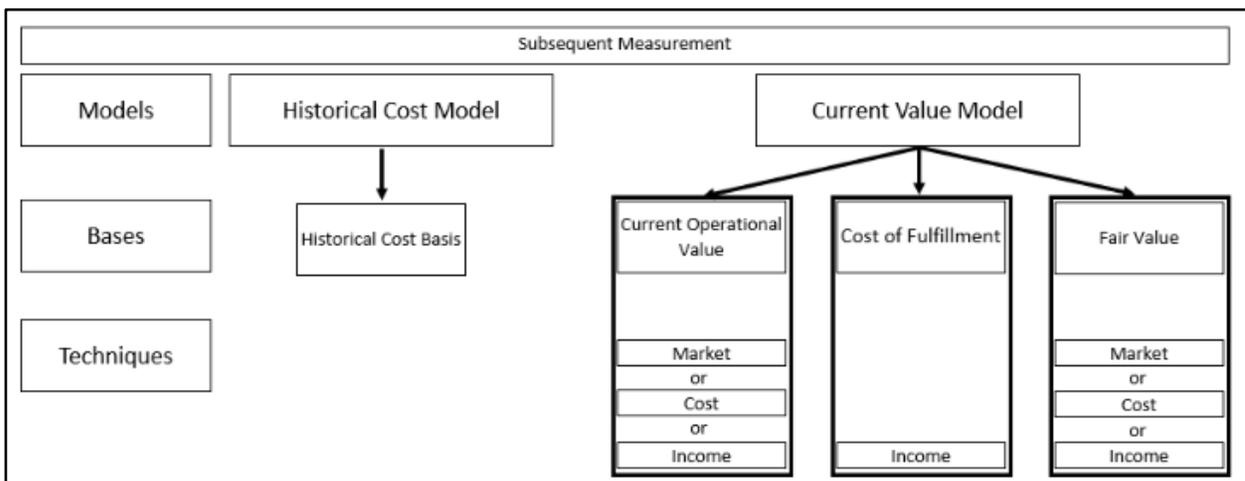
1. Does the IPSASB agree with Staff's recommendation to retain the "Income Approach" terminology in [draft] IPSAS [X], *Measurement*?

### Recommendation

2. Staff recommends the name "Income Approach" be retained in [draft] IPSAS [X], *Measurement*.

### Background

3. As part of the development of ED 77, the IPSASB proposed a 'Measurement Hierarchy', renamed 'Subsequent Measurement Framework' in March 2022, to illustrate the application of measurement principles across IPSAS.
4. The following diagram sets out the framework for subsequent measurement based on ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*. This diagram illustrates the three levels of measurement and the relationships between them.



5. The Income Approach was proposed in ED 77 to be used as a technique that could be applied to estimate the Fair Value, Current Operational Value, and Cost of Fulfillment measurement bases.
6. During the development of the Income Approach, the IPSASB discussed the appropriate name for the technique. While some members supported naming the technique to clearly indicate it related to using discounted cash flows, the IPSASB ultimately agreed to follow precedent and CAG advice, and retain the name 'Income Approach' to align with IFRS<sup>7</sup>.
7. In response to ED 77, 45% of respondents raised concerns about applying the Income Approach to estimate the value of Current Operational Value, and to a lesser extent Cost of Fulfillment.

<sup>7</sup> IFRS 13 uses the Income Approach as a measurement technique that can be applied to estimate Fair Value. The IPSASB agreed since it was aligning Fair Value guidance in the public sector with that of the private sector, and the 'Income Approach' concepts proposed in ED 77 were consistent with IFRS, the term 'Income Approach' should be retained.

Respondents indicated that an income stream did not exist for most public sector assets and therefore using 'incomes' to estimate the value of the asset was not appropriate (for Cost of Fulfillment, no income exists for liabilities and therefore it is not possible to apply the Income Approach).

### **Analysis**

8. The concern raised by respondents relates to the fact that a non-cash generating asset will not have an 'income stream' from which a reliable value can be derived. Without a reliable income stream, respondents are concerned that the 'Income Approach' is not an appropriate measurement technique to determine the Current Operational Value for a non-financial asset:
  - (a) Some respondents noted that using the income technique may cause the asset to be measured at an inappropriately low amount, as public sector entities often hold and use assets for their service potential. The derived value may be lower than its transaction price, and this will result in a reduced asset value at the measurement date, which may not be appropriate when the asset has a significant remaining service potential
  - (b) Some respondents noted that if Current Operational Value is intended by the IPSASB to be solely an entry value, using the Income Approach to estimate an asset's Current Operational Value would be inconsistent with that intention, as the Income Approach would result in an exit value that is generally inconsistent with the concept of the cost to replace the service potential embodied in the asset.

### *Discounted Cash Flows*

9. Paragraph 45 of ED 77 states that the 'Income Approach' converts future amounts (e.g., cash flows or income and expenses) to a single discounted amount taking into account, inter alia, risk, and uncertainty. This guidance is consistent with IFRS 13. While the name of the technique implies that 'incomes' are used in the measurement, the guidance makes no reference to 'income' outside of the name of the technique. Furthermore, paragraph B39 of ED 77, notes that applying the Income Approach shall take into account the attributes of the asset which include:
  - (a) Estimates of future cash flows;
  - (b) Possible variations in the estimated amount or timing of future cash flows for the asset being measured, caused by the uncertainty inherent in the cash flows;
  - (c) The time value of money;
  - (d) The price for bearing the uncertainty inherent in the cash flows (a risk premium). The price for bearing that uncertainty depends on the extent of that uncertainty; and
  - (e) Other factors.
10. As noted in paragraph 8, respondents were concerned with using incomes to measure the value of a public sector asset, using COV, and to a lesser extent, using incomes to measure the value of a liability, using Cost of Fulfillment.
11. No respondents identified concerns with discounting future (cash flows or income and expenses) to measure the value of a public sector asset or to measure the value of a liability. Respondents also proposed no alternatives to discounting techniques nor any improvements to the discounting guidance proposed.

12. Given there was no objection to the discounting guidance proposed in ED 77, staff recommend the IPSASB retain the discounted cash flow guidance proposed in ED 77, which aligns with the IFRS 13 guidance. Furthermore, staff is of the view that guidance on what should be considered in discounting future cash flows is critical to many measurements. However, outside of the proposals in ED 77, guidance on discounting future cash flows is not available as authoritative guidance in IPSAS

*Name of Measurement Technique*

13. As discussed by the IPSASB in the development of ED 77, the term 'Income Approach' is confusing to readers. 'Income Approach' is a new terminology under IPSAS. Stakeholders may not intuitively understand what the 'Income Approach' entails, even though this measurement method is discounted cash flows.
14. The 'Income Approach' terminology is a widely-established term in the valuation community. Departing from the term 'Income Approach', while retaining all the principles could create confusion in practice.
15. Furthermore, the term 'income approach' in [draft] IPSAS [X], *Measurement* is aligned with IFRS 13, *Fair Value*. Departing from the term would result in the IPSASB moving away from the CAG advice to use terms consistently with the private sector when the same concepts are being applied.

**Recommendation**

16. Staff recommends the name "Income Approach" be retained in [draft] IPSAS [X], *Measurement*.

**Decision Required**

17. Does the IPSASB agree with Staff's recommendation?

## **Instructions from March 2022 Meeting**

### **Question**

1. Does the IPSASB agree that the instructions provided by the IPSASB at the March 2022 meeting have been appropriately addressed?

### **Recommendation**

2. Staff recommend the instructions provided by the IPSASB be actioned as noted in paragraph 4.

### **Background**

3. In March 2022, the IPSASB considered an analysis of the responses to ED 77. The IPSASB instructed staff to update the guidance on the accounting policy choice, the historical cost model, and improvements to the disclosure requirements set out in the individual IPSAS.

### **Analysis**

4. Staff have actioned all instructions issued by the IPSASB:

<b>Instruction</b>	<p><b>Agenda Item 9.2.3:</b></p> <p>Clarify in the Basis for Conclusions the reason why the cost approach is an appropriate measurement technique to estimate Fair Value.</p>
<b>Analysis</b>	<p>The Basis of Conclusions was updated to note the IPSASB's decision to maintain consistency with <i>IFRS 13, Fair Value</i> adopting all measurement techniques set out in <i>IFRS 13, Fair Value</i>. See BC65.</p>
<b>Proposed update</b>	<p><b><i>Basis of Conclusions</i></b></p> <p><b>BC65.</b> <u>In developing ED 77, the IPSASB elected to maintain consistency with <i>IFRS 13, Fair Value</i>, adopting all measurement techniques set out in <i>IFRS 13, Fair Value</i>. The cost approach is considered an appropriate measurement technique to estimate Fair Value as the cost to replace an asset is consistent with an exit price definition of fair value. An entity's cost to replace an asset would equal the amount that a market participant buyer of that asset (that would use it similarly) would pay to acquire it (i.e., the entry price and the exit price would be equal in the same market).</u></p>

<b>Instruction</b>	<p><b>Agenda Item 9.2.4:</b></p> <p>Clarify that the income approach is the only technique available to estimate the Cost of Fulfillment in paragraph D22.</p>
<b>Analysis</b>	<p>Paragraph D22 was updated to define the income approach as the only approach for the Cost of Fulfillment measurement basis and to remove the relevant terms that create ambiguity that there may be more approaches that may be used. See Paragraph D22.</p>
<b>Proposed update</b>	<p><b><i>Core Text – Appendix D</i></b></p> <p><b>D22.</b> The objective of using a measurement technique is to estimate the cost that the entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions. <del>The most commonly used</del> valuation approach <u>used</u> when measuring the cost of fulfillment is <del>an</del> <u>the</u> income approach. The main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs D23–D48.</p>

<b>Instruction</b>	<p><b>Agenda Item 9.2.5:</b></p> <p>Develop an appropriate reference in [draft] IPSAS [X], <i>Measurement</i> to highlight the disclosure requirements are located in the relevant IPSAS.</p>
<b>Analysis</b>	<p>The core text and Basis of Conclusions were updated to indicate the Board's decision to maintain the disclosure requirements in the individual IPSAS. See BC 72.</p>
<b>Proposed update</b>	<p><b><i>Core Text - Disclosures</i></b></p> <p><b>54.</b> <u>An entity shall disclose information that helps users of its financial statements assess the measurement basis, the valuation techniques and inputs used to develop those measurements.</u></p> <p><b>55.</b> <u>To meet the objectives in paragraph 54, an entity shall apply the measurement disclosure requirements in the relevant IPSAS to which the measurement of the asset or liability applies.</u></p> <p><b><i>Basis of Conclusions</i></b></p> <p><b>BC 72.</b> <u>In March 2022, the IPSASB reconfirmed the location of the disclosure requirements. The IPSASB considered whether generic measurement disclosure requirements that apply across the IPSAS should be consolidated in the Measurement standard. The IPSASB expressed concern about splitting the disclosure requirements. The IPSASB agreed to maintain the existing approach of inserting the disclosure requirements in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied.</u></p>

<b>Instruction</b>	<p><b>Agenda Item 9.2.6:</b></p> <p>Update the model policy choice guidance as follows:</p> <ul style="list-style-type: none"> <li>a) Enhance consistency of principles with accounting policy choices guidance in <i>IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors</i>;</li> <li>b) Remove the word “often” in paragraph BC 23C;</li> <li>c) Clarify the phrase “current economic consumption or not” in paragraph BC 23D.</li> </ul>
<b>Analysis</b>	<p>The Basis of Conclusions and Illustrative Guidance was updated to clarify the selection of the accounting policy. See BC 23A – BC 23D and IG B2.</p>
<b>Proposed update</b>	<p><b><i>Basis of Conclusions</i></b></p> <p><b>BC 23A.</b> Some respondents to the Exposure Draft recommended guidance be developed explaining how to determine the appropriate measurement model.</p>

**BC 23B.** The IPSASB agreed clarifications would support the consistent application of the guidance and developed Implementation Guidance to expand on the accounting policy choice.

**BC 23C.** The IPSASB noted the ~~accounting policy choice is often determined by factors outside of the entity's control~~ historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

- A more senior level of government for all entities in a sector or jurisdiction; or
- An applicable regulatory framework in the sector or jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity considers the information it believes best presents useful information to users of the financial information.

**BC 23D.** In selecting the appropriate measurement model, the reporting entity should consider whether or not it wants ~~to record its assets and liabilities to reflect the current economic consumption or not its asset or liability to reflect the value of the transaction at the date of initial recognition~~ or the current value of the same transaction on the date of measurement.

#### ***Implementation Guidance***

**B2.** What should an entity consider when determining the appropriate measurement model?

~~Whether the historical cost model or current value model is applied to measure an entity's assets and liabilities is often determined by factors outside of the entity's control.~~ The historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

- A more senior level of government for all entities in a sector or jurisdiction; or
- An applicable regulatory framework in the jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity should select the measurement model that best meets the informational needs of the user of the financial reports.

In selecting the appropriate measurement model, the reporting entity should consider whether ~~it wants to record its assets and liabilities to reflect current economic consumption~~ or not or not it wants its asset or liability to reflect the

	<u>value of the transaction at the date of initial recognition, or the current value of the same transaction on the date of measurement.</u>
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<b>Instruction</b>	<p><b>Agenda Item 9.2.6:</b></p> <p>Update the historical cost guidance as follows:</p> <ul style="list-style-type: none"> <li>a) Align the definition of “historical cost” in <i>IPSAS Measurement</i> and the Conceptual Framework as appropriate; and</li> <li>b) Retain the “historical cost” definition proposed in ED 77.</li> </ul>
<b>Analysis</b>	The definition of “historical cost” in <i>IPSAS Measurement</i> was aligned with the Conceptual Framework and is now consistent with the ED 77 proposal. See Paragraph 6.
<b>Proposed update</b>	<p><b><i>Core Text - Definitions</i></b></p> <p><b>6.</b> Historical cost is the <del>original nominal monetary value of an asset or liability 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.</del></p>

**Recommendation**

5. Staff recommend the instructions provided by the IPSASB be actioned as noted in paragraph 4.

**Decision Required**

6. Does the IPSASB agree with Staff’s recommendation?