Development Document
April 2021

Development Document

Exposure Draft 77, *Measurement*

IPSASB International Public Sector Accounting Standards Board®

DOCUMENT COMPARISON

This Development Document was prepared for information purposes only. It is not a Standard or pronouncement of the IPSASB. It has not been reviewed, approved or otherwise acted upon by the IPSASB.

Objective of the Document Comparison

The objective of this Development Document is to support constituents in their review of ED 77, *Measurement*. This Development Document has been developed to highlight the source of the ED 77 material.

This Development Document references IPSASB meetings where decisions were made. Constituents may access the Agenda Items from the IPSASB meetings on the IPSASB meetings page.

Development of the Exposure Draft

ED 77 proposes new guidance in a single standard which addresses how commonly used measurement bases are applied in practice. It brings in generic guidance on fair value for the first time, and it proposes a public sector specific current value measurement basis to respond to stakeholder views that a new measurement basis is required as an alternative to fair value for assets held for their operational capacity.

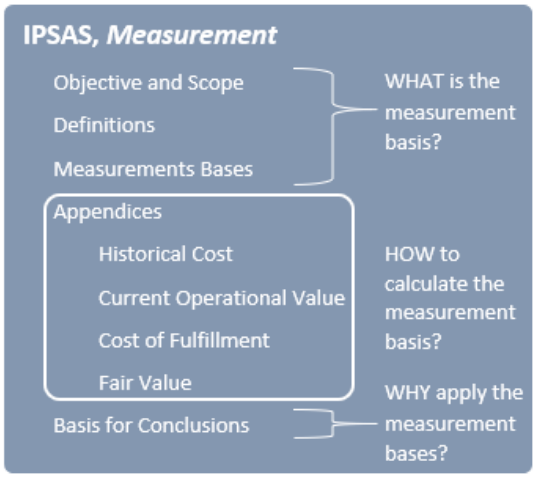
Generic measurement principles are included in the core text of ED 77. For each of the commonly used measurement bases in IPSAS, ED 77 proposes an appendix for each that details how the generic measurement principles are applied to the specific measurement bases. These commonly used measurement bases include:

a. Historical cost (Appendix A: Historical cost);

b. Current operational value (Appendix B: Current operational value);

c. Fair value (Appendix C: Fair value); and

d. Cost of fulfillment (Appendix D: Cost of fulfillment).



NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
Paragraph 1 is Illustrative Exposure Draft (IED).1	**Objective** 1. The objective of this [draft] Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The [draft] Standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.	*CP, Measurement*
Paragraph 2 is IED.2	**Scope** 2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] IPSAS [X], *Measurement* in measuring assets and liabilities.	*CP, Measurement*
Paragraph 3 is IED.3	3. Except as specified in paragraph 4, this [draft] Standard applies when another IPSAS requires or permits: a. One or more of the measurement bases defined in this [draft] Standard or disclosures about one or more of these measurement bases; and b. Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal) or disclosures about those measurements.	*CP, Measurement*
Paragraph 4 is IED.4	4. The measurement requirements of this [draft] Standard do not apply to the following: a. Leasing transactions accounted for in accordance with IPSAS 13, *Leases*; b. Transactions accounted for in accordance with IPSAS 32, *Service Concession Arrangements*: Grantor, and c. Measurements that have some similarities to the measurement bases in this [draft] Standard but are not those measurement bases, such as net realizable value in IPSAS 12, *Inventories* or value in use in IPSAS 21 *Impairment of Non-Cash Generating Assets* and IPSAS 26, *Impairment of Cash- Generating Assets* (but this [draft] Standard is applied in measuring fair value as required in IPSAS 21 and 26).	*CP, Measurement*
Paragraph 5 is IED.5	5. The measurement requirements described in this [draft] Standard apply to both initial and subsequent measurement.	*CP, Measurement*
	Definitions	
Paragraph 6 is IED.6	6. **The following terms are used in this [draft] Standard with the meanings specified:**	

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	<u>Active market</u> is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.	*IFRS 13 Appendix A*
		-
	<u>Cost approach</u> is a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).	*IFRS 13 Appendix A*
	<u>Cost of fulfillment</u> is the cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.	*Paragraph 7.74, 2014 IPSASB Conceptual Framework*
Current operational value definition has been added (see October 2020 Agenda Item 1.2.2 and December Agenda Item 3.2.2, and Issue 1)	**<u>Current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date.</u>**	-
	<u>Entry price</u> is the price paid to acquire an asset or received to assume a liability in an exchange transaction.	*IFRS 13 Appendix A*
	<u>Exit price</u> is the price received to sell an asset or paid to transfer a liability.	*IFRS 13 Appendix A*
	<u>Expected cash flow</u> is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.	*IFRS 13 Appendix A*
	<u>Fair value</u> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	*IFRS 13 Appendix A*
	<u>Highest and best use</u> is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.	*IFRS 13 Appendix A*
	<u>Historical cost</u> is the consideration given to acquire, construct or develop an asset, or the consideration received to assume an obligation, at the time the asset is acquired, constructed or developed, or the liability is incurred.	-
	<u>Income approach</u> is a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.	*Based on IFRS 13 Appendix A*
	<u>Inputs</u> are the assumptions used when pricing the asset or	*Based on IFRS 13*

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	liability, including assumptions about risk, such as the following: **(a) The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and** **(b) The risk inherent in the inputs to the measurement technique.** **Inputs may be observable or unobservable.**	*Appendix A*
	Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	*IFRS 13 Appendix A*
	Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	*IFRS 13 Appendix A*
	Level 3 inputs are unobservable inputs for the asset or liability.	*IFRS 13 Appendix A*
	Market approach is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.	*IFRS 13 Appendix A*
	Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: **(a) They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Party Disclosures,* although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.** **(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.** **(c) They are able to enter into a transaction for the asset or liability.** **(d) They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.**	*IFRS 13 Appendix A*
	Market-corroborated inputs are inputs that are derived	-

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	principally from or corroborated by observable market data by correlation or other means.	
	Most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.	*IFRS 13 Appendix A*
	Non-performance risk is the risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.	*IFRS 13 Appendix A*
	Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.	*IFRS 13 Appendix A*
	Orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).	*IFRS 13 Appendix A*
	Principal market is the market with the greatest volume and level of activity for the asset or liability.	*IFRS 13 Appendix A*
	Risk premium is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.	*IFRS 13 Appendix A*
Transaction price definition has been added (see October 2020 Agenda Item 1.2.5)	**Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.**	*Developed for CP*
	Transaction price is the price paid to acquire an asset or received to assume a liability.	-
	Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.	*IFRS 13 Appendix A*
	Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.	*IFRS 13 Appendix A*
	Unobservable inputs are inputs for which market data are not available and that are developed using the best information	*IFRS 13 Appendix A*

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	available about the assumptions that market participants would use when pricing the asset or liability.	
	Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.	-
	Measurement	
Asset/Liability section moved after Measurement Basis section		
	Initial Measurement	
Guidance on initial measurement has been added (see October Agenda Item 1.2.5) *Paragraph 7 is updated to reflect impact of guidance in other IPSAS (see IPSASB October instruction)*	7. **On the date an item qualifies for recognition, it shall be initially measured at its transaction price, unless:** a. **That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or** b. **Otherwise required or permitted by another IPSAS.** When applying accrual basis IPSAS for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS should be carried out in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*.	*IPSASB CF 7.2*
	Transactions in an Orderly Market	
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	8. When an asset is acquired or a liability is assumed in an orderly market, the transaction price reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.	*Based on C21 of FV AG for consistency*
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	9. Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider factors specific to the transaction and to the asset or liability.	-
	Transactions not Undertaken in an Orderly Market	
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	10. When an asset is acquired, or a liability is assumed, as a result of an event that is not a transaction in an orderly market: a. It may not be possible to observe a transaction price; b. The transaction price may not faithfully present relevant	Based on *IASB*'s *CF 6.6*

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	information about the asset or liability; or c. The transaction price may be zero. In some such cases, one or more current value measurement techniques are used to estimate the value of the asset or liability as a deemed cost on initial measurement. Current value measurement techniques are described in paragraphs 36-45.	
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	11. Any difference between deemed cost and any consideration given or received would be recognized as revenue or expenses, unless otherwise required in the relevant IPSAS.	Based on *IASB*'s *CF 6.6 and 6.81*
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	12. Circumstances where a transaction price may not be observable or may not faithfully present relevant information may include: a. The transaction price includes a concessionary element; b. An asset is transferred to the entity free of charge by a government or donated to the entity by another party; c. A liability might be imposed by legislation or regulation; or d. A liability to pay compensation or a penalty arises from an act of wrongdoing or breach of contract; e. The transaction price is affected by relationships between the parties, or by financial distress or other duress of one of the parties; and f. The transaction price information is not available on the date of adoption of IPSAS as defined in IPSAS 33,	*Based on IASB*'s *CF 6.80*
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	13. When assets are acquired, or liabilities assumed, as a result of an event that is not a transaction in an orderly market, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognize other assets, other liabilities, contributions from owners or distributions to owners to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.	Based on *IASB*'s *CF 6.82*
	Transaction Costs at Initial Measurement	
Paragraph 14 is relocated to include guidance on initial measurement (see September 2020 Agenda Item 7.2.15)	14. Transaction costs incurred in acquiring an asset or incurring a liability are a feature of the transaction in which the asset was acquired, or liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired the asset or liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or in settling or transferring a liability are a feature of a possible future transaction. Unless explicitly required,	Based on IASB's CF BC6.32 and BC6.33

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	possible transaction costs are not included because initial measurement reflects the costs of acquiring the asset or incurring the liability.	
	Transaction Occurring in Stages	
Paragraph 15 is IED.C11	15. The purchase of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the entity's own use. Any expenditures incurred in bringing the asset to the state where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.	
	Deferred Payments	
Paragraph 16 is IED.20. It was relocated to include guidance on initial measurement (see September 2020 Agenda Item 7.2.15)	16. Where the time value of money is material—for example, where the length of time before settlement falls due is significant— the amount of the future cash flows is discounted so that, at the time an asset or liability is first recognized, it represents the value of the amount received or paid. For example, the difference between the amount of the future cash flows and the present value of the asset or liability is amortized over the life of the asset or liability, so that the asset or liability is stated at the amount due to be received or the required payment when it falls due.	IPSASB's CF 7.72
	Subsequent Measurement	
Paragraph 17 is new to indicate subsequent measurement can occur throughout reporting periods (based on IPSASB October Instruction)	17. After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability at historical cost or at its current value. This accounting policy choice is reflected through the selection of the measurement model.	
	Measurement Models	
Paragraph 18 is added to provide an overview of measurement bases	18. Assets and liabilities recognized in financial statements are quantified in historical terms or current terms. This requires the selection of a historical cost or current value measurement model. In selecting a measurement model, an entity shall consider the characteristics of the item, the measurement objective and the monetary information being presented.	*Based on IASB's Conceptual Framework paragraphs 6.1*
	Measurement Bases	
Paragraph 19 is added to provide an overview of measurement bases	19. A measurement basis provides information that achieves the qualitative characteristics, as described in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) and ensures the constraints on information in GPFRs are considered under the measurement model selected. Applying a measurement basis to	*Based on IASB's Conceptual Framework paragraphs 6.1*

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	an asset or liability creates a measure for that asset or liability and for related revenue and expenses. The selection of a measurement basis depends on the measurement model applied (see diagram after paragraph 41).	
Paragraph 20 is IED.7 *The order has been updated to align with the measurement hierarchy in the CF.*	20. **When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below, an entity shall apply the measurement basis in accordance with the requirements and related appendices in this [draft] Standard:** **a. Historical cost (Appendix A: Historical cost);** **b. Current operational value (Appendix B: Current operational value);** **c. Fair value (Appendix C: Fair value); and** **d. Cost of fulfillment (Appendix D: Cost of fulfillment).**	-
	Historical Cost	
Paragraph 21 is IED.14	21. Historical cost is an entry, entity-specific value. Historical cost provides measures monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.	Based on *IASB's CF 6.4 and IPSASB's CF 7.14*
Paragraph 22 is IED.15 *Section deleted as depreciation is not unique to HC.*	22. Following initial measurement, the value of an asset or liability is not remeasured to reflect current conditions or increases in the value of the asset or decreases in the value of the liability.	*IPSASB CF 7.14*
	Current Operational Value	
Paragraph 23 has been added to include COV as a measurement basis (see September 2020 Agenda Item 7.2.16 and December Agenda Item 3.2.2)	23. Current operational value is also an entry, entity-specific value. It provides monetary information about assets, and related revenues and expenses, using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.	*Based on FV para. 26 for consistency (CC is entity specific / FV is from market participants perspective)*
Paragraph 24 has been added to include COV as a measurement basis (see September 2020 Agenda Item 7.2.16)	24. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the entity's asset in its current use.	*Based on FV para. 28 for consistency (CC is entity specific / FV is from market participants perspective)*

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Paragraph 25 has been added to include COV as a measurement basis (see September 2020 Agenda Item 7.2.16)	25. Current operational value differs from fair value because it: a. Is explicitly an entry value and includes all the costs that would necessarily be incurred when obtaining the asset; b. Reflects the value of an asset in its current use, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and c. Is entity-specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market (for example, the current operational 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).	*IPSASB CF 7.28 (IED.22)*
	Fair Value	
Paragraph 26 is IED.8	26. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The fair value of an asset or liability is not dependent, even in part, on the transaction or event that gave rise to the asset or liability.	*Based on IASB's CF 6.10*
Paragraph 27 is IED.9	27. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.	*Based on IASB's CF 6.13*
Paragraph 28 is IED.10	28. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly.	*Based on IASB's CF 6.14*
	Cost of Fulfillment	
Paragraph 29 is IED.11	29. Cost of fulfillment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfillment is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfils a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfill the liability.	*Based on IASB's CF 6.17*

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Paragraph 30 is IED.12	30. Cost of fulfillment cannot be observed directly and is determined using cash-flow-based measurement techniques. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would use and those an entity itself uses.	*Based IASB's CF 6.19 and 6.20*
Paragraph 31 is IED.13	31. The cost of fulfillment reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.	Based on *IASB's CF 6.20*
	Characteristics of the Asset or Liability	
Paragraph 32 is based on IED.A2 *(Section moved in January 2021 to enhance flow of section)*	32. A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis, an entity shall take into account the characteristics of the asset or liability at the measurement date (for example, for fair value measurement the characteristics are considered if market participants would take those characteristics into account when pricing the asset or liability). Such characteristics include, for example, the following: a. The condition and location of the asset; and b. Restrictions, if any, on the sale or use of the asset.	*Based on IFRS 13.11*
Paragraph 33 is based on IED.A3 *(Section moved in January 2021 to enhance flow of section)*	33. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity, for entity-specific measurements, and by market participants, for market-based measurements.	*Based on IFRS 13.12*
Paragraph 34 is based on IED.A4 *(Section moved in January 2021 to enhance flow of section)*	34. The asset or liability measured might be either of the following: a. A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or b. A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).	*Based on IFRS 13.13*
Paragraph 35 is based on IED.A2 *(Section moved in January 2021 to enhance flow of section)*	35. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its *unit of account*. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this [draft] Standard, except where specified differently in this [draft] Standard.	*Based on IFRS 13.14*
	Measurement Techniques	
Paragraph 36 is IED.A30. Moved to	36. **An entity shall use measurement techniques that are**	*IFRS 13.61*

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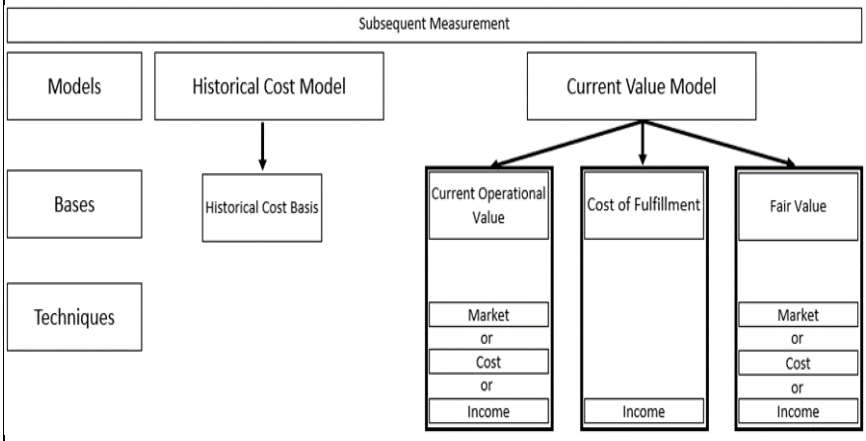
address structure (see September 2020 Agenda Item 7.2.14) *Measurement Hierarchy added to illustrate the concepts.*	**appropriate in the circumstances and for which sufficient data are available to estimate the measurement basis or determine deemed cost.** **The following diagram sets out the measurement hierarchy 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.** 	
Paragraph 37 has been added to provide an overview of measurement techniques	37. A measurement technique is applied to estimate the amount at which an asset or liability is recognized under the selected measurement basis or in determining deemed cost (see paragraph 10). Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 26-28.	*Based on IASB CF 6.91*
Paragraph 38 is IED.A31. Moved to address structure (see September 2020 Agenda Item 7.2.14)	38. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 42–45. An entity shall use measurement techniques consistent with one or more of those approaches to measure the asset or liability under the selected measurement basis.	*IFRS 13.62*
Paragraph 39 is IED.A32. Moved to address structure (see September 2020 Agenda Item 7.2.14)	39. In some cases, a single measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement techniques are used to measure the asset or liability under the selected measurement basis, the results shall	*IFRS 13.63*

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	be evaluated considering the reasonableness of the range of values indicated by those results.	
Paragraph 40 is IED.A34. Moved to address structure (see September 2020 Agenda Item 7.2.14)	40. Measurement techniques shall be applied consistently. However, a change in a measurement technique or its application (e.g., a change in its weighting when multiple measurement techniques are used or a change in an adjustment applied to a measurement technique) is appropriate if the change results in a measurement that is equally or more representative of the measurement basis in the circumstances. That might be the case if, for example, any of the following events take place: a. New markets develop; b. New information becomes available; c. Information previously used is no longer available; d. Measurement techniques improve; or e. Market conditions change.	*IFRS 13.65*
Paragraph 41 is IED.A35. Moved to address structure (see September 2020 Agenda Item 7.2.14)	41. Revisions resulting from a change in the measurement technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurement technique or its application.	*IFRS 13.66*
Paragraph 42 is IED.A36. Moved to address structure (see September 2020 Agenda Item 7.2.14)	Market Approach 42. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.	*IFRS 13.B5*
	Cost Approach	
Paragraph 43 is IED.A39 and IED.A40. Moved to address structure (see September 2020 Agenda Item 7.2.14)	43. The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition or construction of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.	*Paragraphs 43 is IFRS 13.B8 and B9*
Paragraph 44 is IED.D30. Moved to address structure (see September 2020 Agenda Item 7.2.14)	44. The cost of a substitute asset of comparable utility is calculated as the cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing	-

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	asset while using the latest technology available.	
	Income Approach	
Paragraph 45 is IED.A41. Moved to address structure (see September 2020 Agenda Item 7.2.14)	45. The income approach converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis reflects current expectations about those future amounts.	*IFRS 13.B10*
	Depreciation, Impairment and Other Adjustments	
Paragraph 46 is new (see October Agenda Item 1.2.4)	46. Depreciation and impairment are applicable to measurement bases in the historical cost model and the current value model. Neither depreciation nor impairment are measurement bases or measurement techniques in their own right. They are methods to reflect the consumption of the asset or loss of the future economic benefits or service potential of the asset.	-
Paragraph 47 is relocated from the historical cost AG to include generic guidance on subsequent measurement (see September 2020 Agenda Item 7.2.15)	47. Under both the historical cost model and the current value model, an asset is updated over time to depict: (a) The consumption of part or all of the resource that constitutes the asset (depreciation or amortization); (b) Payments received that extinguish part or all of the asset; (c) The effect of events that cause part or all of the asset to no longer be recoverable (impairment); and (d) Accrual of interest to reflect any financing component of the asset.	Based on IASB's CF 6.7
Paragraph 48 is relocated from the historical cost AG to include generic guidance on subsequent measurement (see September 2020 Agenda Item 7.2.15)	48. Under both the historical cost model and the current value model, a liability is updated over time to depict: (a) Fulfillment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods or services; (b) The effect of events that increase the value of the obligation to transfer the resources needed to fulfill the liability to such an extent that the liability becomes onerous. A liability is onerous if the carrying amount is no longer sufficient to depict the obligation to fulfill the liability; and (c) Accrual of interest to reflect any financing component of the liability.	Based on IASB's CF 6.8
	Transaction Costs in Subsequent Measurement	
Paragraph 49 is IED.24	49. **Transaction costs are incremental costs that would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.**	*CP, Measurement*
Paragraph 50 is IED.25	50. Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would	*CP, Measureme*

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.	*nt*
Paragraph 51 is IED.26	51. Costs attributable to the acquisition of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer, (e.g., borrowing costs), are excluded from the definition of transaction costs.	*CP, Measurement*
Paragraph 52 is IED.27	52. Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether an entity is recognizing an asset or liability using an entry-based measurement basis or an exit-based measurement basis impacts whether those transaction costs are included in or excluded from the item's measurement.	*CP, Measurement*
Paragraph 53 is IED.28	53. Transaction costs can arise when an asset is acquired, constructed, or developed or a liability is incurred, when an asset is sold or disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring, constructing, or developing an asset or incurring a liability are a feature of the transaction in which the asset was acquired, constructed or developed, or the lability was incurred, such transaction costs incurred in entering into a transaction are included in entry-based measurement bases. Transaction costs that would be incurred in selling or disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction costs that would be incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is entity-specific.	*CP, Measurement*
	Effective Date and Transition	
	Effective Date	
Paragraph 54 is added	54. **An entity shall apply this [draft] Standard for annual periods beginning on or after [MM, DD, YYYY]. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it must disclose that fact.**	-
Paragraph 55 is added	55. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33 for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after	-

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	the date of adoption of accrual basis IPSAS.	
	Transition	
Paragraph 56 is added	56. This [draft] Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.	*IFRS 13.C2*

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	Appendix A: Historical Cost *This Appendix is an integral part of [draft] IPSAS [X] (ED 77).*	
	Measurement	
Paragraph A1 is added for consistency across all AGs (see September 2020 Agenda item 7.2.26)	A1. The objective of historical cost measurement is to provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction (or deemed cost, where applicable) or other event that gave rise to them.	Based on IASB's CF 6.4
Paragraph A2 is IED.C1 and is amended to provide HC guidance on liabilities (see September 2020 Agenda item 7.2.26)	A2. Historical cost is: (a) The consideration given to acquire, construct and/or develop an asset; (b) The consideration received to incur or take on a liability; or (c) The deemed cost of the asset or liability or other event that gave rise to it Historical cost is the cash or cash equivalents or the value of the other consideration given or received, at the time, or period over which, the asset is acquired, constructed or developed or the liability is incurred.	IPSASB's CF 7.13
	Initial Measurement	
Guidance on initial measurement has been moved to paragraphs 7–16 of the core text as it is generic guidance (see IPSASB September Instructions)	A3. Initial measurement is determined in accordance with paragraphs 7-16 of this [draft] Standard.	-
	Subsequent Measurement	
Paragraph A4 is added to include guidance on subsequent measurement (see September 2020 Agenda Item 7.2.15)	A4. After initial measurement, the gross carrying amount of an asset or liability measured at historical cost remains unaffected by changes in the underlying current market conditions, unless those changes trigger an impairment. For example, the amount at which an item of property, plant, and equipment is recorded is not updated to reflect an increase in the current market price of the item after it has been acquired, constructed or developed.	-
	A5. However, as with current value measurements, the carrying amount of an asset or liability measured at historical cost is	-

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	updated to reflect changes to the item as noted in paragraphs 47 and 48.	
Paragraph A6 is IED.C20	**Amortized Cost** A6. The historical cost measurement basis is applied to financial instruments by measuring the instruments at amortized cost in accordance with paragraph AG160 of IPSAS 41, *Financial Instruments*. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial measurement. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.	Based on IASB's CF 6.9

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	Appendix B: Current Operational Value *This Appendix is an integral part of [draft] IPSAS [X] (ED 77).*	
	Measurement	
Paragraph B1 is added to provide guidance on new measurement basis – current operational value (See September 2020 Agenda Item 7.2.16 and December 2020 Agenda Item 3.2.2)	B1. The objective of a current operational value measurement is to estimate the value of a non-financial asset in achieving the entity's service delivery objectives at the measurement date. A current operational value measurement requires an entity to determine all of the following: (a) The asset that is the subject of the measurement (consistent with its unit of account). (b) The current use of the asset by the entity. (c) The measurement technique(s) appropriate for estimating the entry price of the asset based on its current use, considering the availability of data with which to develop inputs that represent the assumptions that are specific to the entity.	*Based on C1 of FV AG for consistency (COV is entity specific / FV is from market participants perspective)* *Includes aspects of D1 of deleted RC AG.*
Paragraph B2 is new to explain the objective of current operational value.	B2. Current operational value measures the value, to the entity of an asset, held for its operational capacity in its current use. (a) In the statement of financial position, current operational value reflects the amount an entity would incur at the measurement date to acquire its existing assets to be able to continue to achieve its present service delivery objectives. (b) In the statement of financial performance, current operational value reflects the value of the assets consumed in providing the service at the prevailing prices. This differs from historical cost which reflects consumption of the assets in terms of the prices that prevailed when the assets were acquired and initially recognized.	-
	Service Delivery Objectives	
Paragraph B3 is new (See December 2020 Agenda Item 3.2.2)	B3. An asset supports an entity in achieving its service delivery objectives in its current use. 'Current use' is the current way an asset or group of assets is used. Current use generally reflects the policy objectives of the entity operating the asset. For example, a Ministry of Health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to achieve the policy objective rather than for	*Based on IVS 150.1* *Based on D14 of deleted RC AG*

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	commercial purposes.	
Paragraph B4 is new (See December 2020 Issue 1)	B4. Measuring the current use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, a building operated as a school, currently used as is a school. Alternative uses, such as the operation of the building as an office block held for rental at market rates are not considered. The current use may be, but is not necessarily, the highest and best use.	*Based on IVS 150.1*
	The Value of an Asset	
Paragraph B5 is new (See December 2020 Agenda Item 3.2.2)	B5. Current operational value measures the value of an asset, or group of assets, used in supporting the achievement of an entity's present service delivery objectives. The following key aspects affect the measurement of an asset's current operational value : (a) Location of the asset; (b) Entity-specific value; (c) Surplus capacity; (d) Restrictions; and (e) The least costly manner to achieve its service delivery objectives.	
	The Location of the Asset	
Paragraph B6 is new (See December 2020 Issue 4)	B6. The asset's current operational value 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.	-
Paragraph B7 is new (See December 2020 Issue 4)	B7. The current operational value of a building reflects the value of the building in its current location. For example, a hospital operating in a city center that could now be situated in the suburbs, because of the migration of the population, is measured based on the value of the hospital in its current location (e.g., if the cost approach is applied, construction costs, permits, regulations, etc. are based on costs incurred at the current location).	-
	Entity-Specific Value	
Paragraph B8 is new (See September 2020 Agenda Item 7.2.16)	B8. An entity shall measure the current operational value of an asset using the assumptions from the entity's perspective, assuming that entity acts in accordance with its policy	*Based on C9 of FV AG for consistency*

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	objectives.	
Paragraph B9 is new (See September 2020 Agenda Item 7.2.16)	B9. As an asset's current operational value represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.	*Based on D27 of deleted RC AG*
	Surplus Capacity	
Paragraph B10 is new (See December 2020 Issue 4)	B10. 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.	-
Paragraph B11 is new (See December 2020 Issue 4)	B11. Since current operational value reflects the value of the asset consumed in providing the service at the prevailing prices, current operational value assumes the asset is used to its full capacity, subject to any tests for impairment in accordance with IPSAS 21 or IPSAS 26.	-
Paragraph B12 is new (See December 2020 Issue 4)	B12. For example, the current operational value of land shall reflect the value of the land actually held, in terms both of size and location. For example, if the services could be provided from a site measuring three hectares, but the actual site measures five hectares, the land is measured based on its actual size.	-
	Restrictions	
Paragraph B13 is new (See December 2020 Agenda Item 3.2.3). *Paragraph is updated for December 2020 instruction.*	B13. Many assets are subject to restrictions on their use or sale and/or the price an entity can charge users of the services provided by the asset, where the restriction is legally enforceable and cannot be revoked unilaterally by the entity holding the asset. Such legally enforceable restrictions may arise from legislation, planning authorities, ministerial decisions or instructions from governments or other authorities.	-
Paragraph B14 is new (See December Instructions)	B14. The current operational value of restricted assets shall be measured as follows: (a) If an equivalent restricted asset is obtainable in the orderly market at the measurement date for a price supported by observable market evidence, the asset is measured based on the available market evidence for the equivalent restricted asset, without any further reduction for the restrictions; or (b) If an equivalent restricted asset is not obtainable in an orderly market at the measurement date for a price	-

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	supported by observable market evidence, the asset is measured at the price of an equivalent unrestricted asset, without a reduction for the restrictions.	
Paragraph B15 is new (See December Instructions)	B15. An equivalent asset – whether restricted or unrestricted – should be an asset that reflects the same characteristics as the asset being measured. For example, if the asset being measured is contaminated, an equivalent asset should be a contaminated asset. If the equivalent asset has a different service capacity from the asset being measured (although necessarily the same nature), market comparison techniques are used to adjust for the difference between the capacity of the entity's asset being measured and the capacity of the equivalent reference asset. For example, a public sector entity could measure a school asset using the price of a recently constructed school in a neighboring district that has double the student capacity, with adjustments for the difference in capacity and any other difference in value if the reference asset provides different amenity. Despite differing capacities or amenity, the nearby school is an equivalent asset because it provides services of the same nature as the school being measured.	-
Paragraph B16 is new (See December Instructions)	B16. For the purposes of paragraph B14: (a) An equivalent restricted asset is an asset that provides services of the same nature as those the entity's asset provides in its current use and that is subject to the same restriction(s) on use, sale and/or pricing as the entity's asset; and (b) An equivalent unrestricted asset is an asset that provides services of the same nature as those the entity's asset provides in its current use but is not subject to all the restrictions imposed on the entity's asset. When an equivalent restricted asset is not obtainable in an orderly market, but one or more equivalent assets subject to some of the restrictions applying to the entity's asset are obtainable in an orderly market, the equivalent "unrestricted" asset used as a reference asset for measuring the entity's restricted asset is that which most closely shares the restrictions to which the entity's asset is subject.	-
Paragraph B17 is new (See December Instructions)	B17. The current operational value of a restricted asset measured under paragraph B14 by reference to observable market	-

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	evidence for an equivalent asset is not reduced to reflect the restrictions. In respect of assets measured under paragraph B14(a), the market entry price of an equivalent restricted asset would already reflect any effects that the restrictions have on the current entry price of the service potential embodied in the asset. In respect of assets measured under paragraph B14 (b), the restrictions would not reduce the current entry price of the service potential embodied in the asset (the cost that the entity currently would need to incur) if the entity needs to purchase an unrestricted replacement asset to continue delivering services of the same nature and volume.	
	The Least Costly Manner	
Paragraph B18 is relocated (See September 2020 Agenda Item 7.2.16)	B18. A current operational value measure assumes the amount an entity would incur at the measurement date to be able to continue to achieve its service delivery objectives using its current assets is incurred in the least costly manner. For example, using a modern equivalent asset to estimate the current operational value requires identifying a notional asset using the latest technology available. However, the latest technology available does not imply the most advanced technology available, as this may not be the least costly manner to achieve the entity's service delivery objective.	*Based on D23 of deleted RC AG*
Paragraph B19 is relocated (See September 2020 Agenda Item 7.2.16)	B19. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.	*Based on D26 of deleted RC AG*
Paragraph B20 is relocated (See September 2020 Agenda Item 7.2.16)	B20. Current operational value reflects the amount an entity would incur to be able to continue to achieve its present service delivery objectives using its existing assets in the ordinary course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event.	*Based on D26 of deleted RC AG*
	Initial Recognition	
Paragraph B21 is new to ensure measurement at initial recognition is addressed	B21. If another IPSAS requires or permits an entity to measure an asset initially at current operational value and the transaction price differs from current operational value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.	*Based on IFRS 13.60*
	Measurement Techniques	
Paragraph B22 is new (See September 2020	B22. In some cases, current operational value cannot be	*Based on IASB*

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Agenda Item 7.2.16)	determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available only for new assets, the current operational value of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.	*Conceptual Framework 6.22*
Paragraph B23 is new (See September 2020 Agenda Item 7.2.16)	B23. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.	*Based on C27 of FV AG for consistency* *Based on D28 of deleted RC AG*
Paragraph B24 is new (See September 2020 Agenda Item 7.2.16)	B24. The objective of using a measurement technique is to estimate the value of the asset used to achieve the entity's present service delivery objectives at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs B26–B40. An entity shall use measurement techniques consistent with one or more of those approaches to measure current operational value.	*Based on C28 of FV AG for consistency*
Paragraph B25 is new (See September 2020 Agenda Item 7.2.16)	B25. If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current operational value measurement is the point within that range that is the most representative value of the asset in its current use in the circumstances.	*Based on C29 of FV AG for consistency*
	Market Approach	
Paragraph B26 is new (See September 2020 Agenda Item 7.2.16)	B26. Applying the market approach to measure the current operational value of an asset requires the existence of market transactions involving identical or comparable assets.	*Based on C31 of FV AG for consistency*
Paragraph B27 is new (See September 2020 Agenda Item 7.2.16)	B27. In many cases, the current operational value of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. For example, the current operational value of a property or motor vehicles may be established by reference to the indexed price for the same or a similar asset based on a price for a previous period.	*Based on D29 of deleted RC AG*

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Paragraph B28 is new (See September 2020 Agenda Item 7.2.16)	B28. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach an asset with an identical or similar remaining useful live, service potential, etc. must be identified. A similar asset may exist when an asset, comparable to that being valued, was recently acquired, constructed or developed.	-
	Cost Approach	
	B29. Applying the cost approach to measure the current operational value of an asset involves considering the current replacement cost of the asset.	-
Paragraph B30 is new (See September 2020 Agenda Item 7.2.16)	B30. There are various examples in the public sector of assets whose specifications are such that there are few (if any) similar assets and a market approach to assessing a current operational value is unlikely to be appropriate.	*Based on D15 of deleted RC AG*
Paragraph B31 is new (See December 2020 Instructions)	B31. The current operational value of an asset will likely be established by reference to the amount required to replace the asset when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will be applied. For example, the current operational value of a school may be established by reference to the market buying price of components used to produce the school.	*Based on D29 of deleted RC AG*
	Modern Equivalent Asset	
Paragraph B32 is new (See September 2020 Agenda Item 7.2.16) *Relocated from earlier in Appendix B (See December 2020 instruction)*	B32. In general, the current operational value is estimated by calculating the cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset in its current use while using the latest technology available[1]—and then making deductions for obsolescence and optimization.	*Based on D30 of deleted RC AG*
Paragraph B33 is new (See December 2020 instructions)	B33. It may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as a historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent does not represent the heritage	-

[1] The latest technology available is evaluated in the context of the current use of the asset and its replacement in the least costly manner (see paragraph B28). A modern equivalent asset need not use the most advanced technology available, but it must be based on the technological standard at the measurement date.

NOTES	**DRAFT IPSAS XX, *Measurement***	*Original Source*
	value of the asset.	
Paragraph B34 is new (See September 2020 Agenda Item 7.2.16) *Relocated from earlier in Appendix B (See December 2020 instruction)*	B34. An entity should consider very carefully whether to use a reproduction cost (or restoration cost) to determine current operational value. Such considerations should include whether there is a statutory or other requirement to replace an asset with what is essentially a replica and whether an exact reproduction is possible; if not, then a technique that assesses the replacement of a modern equivalent asset is likely to be more appropriate for financial reporting purposes.	-
Paragraph B35 is new (See September 2020 Agenda Item 7.2.16) *Relocated from earlier in Appendix B (See December 2020 instruction)*	B35. The cost of a modern equivalent asset will reflect the amount that would be incurred if the works were commissioned on the measurement date. However, there are factors that may result in the cost of a notional replacement being different from that of creating the actual asset: a. *Phasing of work* – A large site may have been developed in phases. The cost of a modern equivalent asset would normally be based on a single-phase development, and this should be measured at the building cost at the measurement date. A single-phase development may still occur over an extended period of time. If the entity does not capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*, the entity should disregard any financing costs in measuring the modern equivalent asset. b. *Additional costs arising from extending an existing property* – These costs should be ignored, since the norm is that the valuation will be of a modern equivalent asset. c. *Contract variations* – Additional construction costs because of design or specification changes should be ignored. The modern equivalent asset being valued will have the same service capacity as the existing asset in its current use. d. *Planning changes* – Entities should consider whether planning consent would need to be obtained were the modern equivalent asset to be constructed on the actual site.	*Based on D36-D42 of deleted RC AG*
Paragraph B36 is new (See September 2020 instructions) *Relocated from earlier in Appendix B (See December 2020 instruction)*	B36. Deductions are made for the following forms of obsolescence: (a) Physical Obsolescence. Physical obsolescence relates to any loss of service capacity due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an	*Based on D31-D33 of deleted RC AG*

NOTES	DRAFT IPSAS XX, *Measurement*	Original Source
	entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration. (b) Functional Obsolescence. Functional obsolescence relates to any loss of service capacity resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence. (c) Economic (or External) Obsolescence. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.	
Paragraph B37 is new (See September 2020 instructions) *Relocated from earlier in Appendix B (See December 2020 instruction)*	B37. It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.	*Based on PBE IPSAS 17 AG5.*
	Income Approach	
Paragraph B38 is new *(See December 2020 Instructions)*	B38. The income approach converts future amounts (e.g., cash flows or revenues and expenses) to a single current amount. This approach may be applicable to estimate the current operational value when: a. The use of multiple measurement techniques is appropriate (e.g., the use of a market approach and a present value technique). Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. When the timing of an outflow differs from the measurement date that amount should be discounted to it value at the measurement date when estimating current operational value. For example, when establishing the current operational value of a	-

NOTES	DRAFT IPSAS XX, *Measurement*	Original Source
	school by reference to the construction of a substitute asset, i.e., the cost approach, costs incurred over the construction period should be discounted to the measurement date using the present value techniques outlined in the income approach. (see paragraphs B40–B41 which describe the use of present value techniques). b. Information is unavailable to support the application of the market or cost approach. Discounting the future cash inflows generated by an asset will generally not reflect the amount an entity would currently incur to acquire its assets to be able to continue to achieve its present service delivery objectives. However, in some cases the income approach may be the best approximation of current operational value when cost or market information is unavailable. For example, heritage items that are naturally occurring, such as cave paintings, or natural resources are unlikely to have cost or market information related to the specific asset. However, the asset may generate cash inflows through tourism, a royalty stream, etc. that may be relevant in determining the current operational value.	
Paragraph B39 is new (See September 2020 Agenda Item 7.2.16)	B39. Applying the income approach shall take into account the attributes of the asset. This includes: Section 1 Estimates of future cash flows; Session 2 ossible 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; Session 3 The time value of money; Session 4 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 Session 5 Other factors.	*Based on the IASB Conceptual Framework*
Paragraph B40 is new (See September 2020 Agenda Item 7.2.16)	B40. Paragraphs C37–C54 describe the use of present value techniques. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure current operational value to the techniques discussed. The present value technique used to measure current operational value will	*Based on C36 of FV AG for consistency*

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	depend on facts and circumstances specific to the asset being measured (e.g., whether prices for comparable assets can be observed in the market) and the availability of sufficient data.	
Paragraph B41 is new to explain how to interpret present value guidance referenced in paragraph B40.	B41. When applying paragraphs C37–C54 in the context of measuring current operational value, an entity should perform the measurement from the perspective of the entity holding the asset rather from the perspective of the market participant as noted in paragraphs C37.d, C38.a, C40, C41(c), C48, and C49.	-

NOTES		Original Source
	Appendix C: Fair Value *This Appendix is an integral part of [draft] IPSAS [X] (ED 77).*	
	Measurement	
Paragraph C1 is IED.A1	C1. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following: a. The particular asset or liability that is the subject of the measurement (consistently with its unit of account); b. For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use); c. The principal (or most advantageous) market for the asset or liability; and d. The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.	*IFRS 13.B2*
	The Transaction	
Paragraph C2 is IED.A6	C2. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.	*IFRS 13.15*
Paragraph C3 is IED.A7	C3. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: a. In the principal market for the asset or liability; or b. In the absence of a principal market, in the most advantageous market for the asset or liability.	*IFRS 13.16*
Paragraph C4 is IED.A8	C4. An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a	*IFRS 13.17*

NOTES		Original Source
	transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.	
Paragraph C5 is IED.A9	C5. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement technique), even if the price in a different market is potentially more advantageous at the measurement date.	*IFRS 13.18*
Paragraph C6 is IED.A10	C6. The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.	*IFRS 13.19*
Paragraph C7 is IED.A11	C7. Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.	*IFRS 13.20*
Paragraph C8 is IED.A12	C8. Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.	*IFRS 13.21*
	Market Participants	
Paragraph C9 is IED.A13	C9. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.	*IFRS 13.22*
Paragraph C10 is IED.A14	C10. In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify	*IFRS 13.23*

NOTES		Original Source
	characteristics that distinguish market participants generally, considering factors specific to all the following: a. The asset or liability; b. The principal (or most advantageous) market for the asset or liability; and c. Market participants with whom the entity would enter into a transaction in that market.	
	The Price	
Paragraph C11 is IED.A15	C11. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurement technique.	*IFRS 13.24*
Paragraph C12 is IED.A16	C12. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for *transaction costs*. Transaction costs shall be accounted for in accordance with other IPSAS. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.	*IFRS 13.25*
Paragraph C13 is IED.A17	C13. Transaction costs do not include *transport costs*. If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.	*IFRS 13.26*
	Application to non-financial assets	
	Highest and Best Use for Non-Financial Assets	
Paragraph C14 is IED.A18	C14. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its *highest and best use* or by selling it to another market participant that would use the asset in its highest and best use.	*IFRS 13.27*
Paragraph C15 is IED.A19	C15. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows: a. A use that is physically possible takes into account the physical characteristics of the asset that market	*IFRS 13.28*

NOTES		Original Source
	participants would take into account when pricing the asset (e.g., the location or size of a property). b. A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property). c. A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate revenue or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.	
Paragraph C16 is IED.A20	C16. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.	*IFRS 13.29 and IFRS 13.30*
Paragraph C17 is IED.A21	C17. To protect the public interest, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset, such as a drug patent, that the entity plans to use to manufacture vaccines for its citizens. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.	-
	Valuation Premise for Non-Financial Assets	
Paragraph C18 is IED.A22	C18. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows: (a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation). (i) If the highest and best use of the asset is to use	*IFRS 13.31*

NOTES		Original Source
	the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants. (ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets. (iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used. (b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.	
Paragraph C19 is IED.A23	C19. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IPSAS (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.	*IFRS 13.32*
Paragraph C20 is IED.A24	C20. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For	*IFRS 13.B3*

NOTES		Original Source
	example: (a) The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities). (b) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use) (c) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods. (d) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the measurement technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurement technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.	

NOTES		*Original Source*
	(e) In more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).	
	Fair Value at Initial Recognition	
Paragraph C21 is IED.A25	C21. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an *entry price*). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.	*IFRS 13.57*
Paragraph C22 is IED.A26	C22. In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).	*IFRS 13.58*
Paragraph C23 is IED.A27	C23. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph C25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.	*IFRS 13.59*
Paragraph C24 is IED.A28	C24. If another IPSAS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.	*IFRS 13.60*
Paragraph C25 is IED.A29 *Paragraph A29e has been added to include public sector specific circumstances (see September 2020 Agenda item 7.2.27)*	C25. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist: a. The transaction is between related parties, although the	*IFRS 13.B4*

NOTES		Original Source
	price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms. b. The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty. c. The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IPSAS, or the transaction price includes transaction costs. d. The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market. e. The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).	
	Measurement Techniques	
Paragraph C26 is added to emphasize selection of measurement technique.	C26. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.	*Based on IASB Conceptual Framework 6.14*
Paragraph C27 is IED.A30	C27. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.	*IFRS 13.61*
Paragraph C28 is IED.A31	C28. The objective of using a measurement technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market	*IFRS 13.62*

NOTES		Original Source
	participants at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs C31–C36. An entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.	
Paragraph C29 is IED.A32 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)	C29. If multiple measurement techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.	*IFRS 13.63*
Paragraph C30 is IED.A33 *Paragraph C30 has been moved back from core text as calibration at initial measurement is only applicable to fair value.*	C30. If the transaction price is fair value at initial recognition and a measurement technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the measurement technique shall be calibrated so that at initial recognition the result of the measurement technique equals the transaction price. Calibration ensures that the measurement technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the measurement technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurement technique). After initial recognition, when measuring fair value using a measurement technique or techniques that use unobservable inputs, an entity shall ensure that those measurement techniques reflect observable market data (e.g., the price for a similar asset or liability) at the measurement date.	*IFRS 13.64*
	Market Approach	
Paragraph C31 is IED.A37	C31. Measurement techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgment, considering qualitative and quantitative factors specific to the measurement.	*IFRS 13.B6*
Paragraph C32 is IED.A38	C32. Measurement techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but	*IFRS 13.B7*

NOTES		Original Source
	rather relying on the securities' relationship to other benchmark quoted securities.	
	Cost Approach	
Paragraph C33 added to reflect application of measurement techniques to bases (see September 2020 Agenda Item 7.2.14)	C33. Cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost	
	Market Participant	
Paragraph C34 is IED.A40	C34. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.	*IFRS 13. B9*
Paragraph IED.A41 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)	*Income Approach*	
Paragraph C35 is IED.A42	C35. When estimating fair value, the income approach can be applied using several methods. Those methods include, for example, the following: a. Present value techniques (see paragraph C36); b. Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and c. The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.	*IFRS 13. B11*
	Present Value Techniques	
Paragraph C36 is IED.A43	C36. Paragraphs C37–C54 describe the use of present value	*IFRS 13.B1*

NOTES		Original Source
	techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.	2
	The Components of a Present Value Measurement	
Paragraph C37 is IED.A44	C37. Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date: a. An estimate of future cash flows for the asset or liability being measured. b. Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows. c. The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate). d. The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium). e. Other factors that market participants would take into account in the circumstances. f. For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.	IFRS 13. B13
	General Principles	
Paragraph C38 is IED.A45	C38. Present value techniques differ in how they capture the elements in paragraph C37. However, all the following general principles govern the application of any present value	IFRS 13.B14

NOTES		Original Source
	technique used to measure fair value: a. Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability. b. Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured. c. To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used. d. Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows. e. Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.	
	Risk and Uncertainty	
Paragraph C39 is IED.A46	C39. A measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.	*IFRS 13.B15*

NOTES		Original Source
Paragraph C40 is IED.A47	C40. Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.	*IFRS 13.B16*
Paragraph C41 is IED.A48	C41. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example: (a) The discount rate adjustment technique (see paragraphs C42–C46) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows. (b) Method 1 of the expected present value technique (see paragraph C49) uses risk-adjusted expected cash flows and a risk-free rate. (c) Method 2 of the expected present value technique (see paragraph C50) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.	*IFRS 13.B17*
	Discount Rate Adjustment Technique	
Paragraph C42 is IED.A49	C42. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).	*IFRS 13.B18*
Paragraph C43 is IED.A50	C43. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or	*IFRS 13.B19*

NOTES		Original Source
	non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a 'build-up' approach).	
Paragraph C44 is IED.A51	C44. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets: (a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent [(CU1,200/CU1,083) – 1]. (b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent [(CU700/CU566)^0.5 – 1]. (c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).	*IFRS 13.B20*
Paragraph C45 is IED.A52	C45. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the value of Asset A is CU722 (CU800/1.108). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the	*IFRS 13.B21*

NOTES		Original Source
	same, the two-year market rate of return would be further adjusted for that effect.	
Paragraph C46 is IED.A53	C46. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.	*IFRS 13. B22*
	Expected Present Value Technique	
Paragraph C47 is IED.A54	C47. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).	*IFRS 13.B23*
Paragraph C48 is IED.A55	C48. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk: (a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability. (b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio. Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)	*IFRS 13.B24*
Paragraph C49 is IED.A56	C49. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is	*IFRS 13.B25*

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<tr><th>NOTES</th><th></th><th>Original Source</th></tr>
<tr><td></td><td>discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.</td><td></td></tr>
<tr><td>Paragraph C50 is IED.A57</td><td>C50. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.</td><td>IFRS 13.B26</td></tr>
<tr><td>Paragraph C51 is IED.A58</td><td>C51. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.
<table>
<tr><th>Possible cash flows</th><th>Probability</th><th>Probabili</th></tr>
<tr><td>CU500</td><td>15%</td><td>CU75</td></tr>
<tr><td>CU800</td><td>60%</td><td>CU480</td></tr>
<tr><td>CU900</td><td>25%</td><td>CU225</td></tr>
<tr><td>Expected cash flows</td><td></td><td>CU780</td></tr>
</table></td><td>IFRS 13.B27</td></tr>
<tr><td>Paragraph C52 is IED.A59</td><td>C52. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into</td><td>IFRS 13.B28</td></tr>
</table>

NOTES		Original Source
	account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.	
Paragraph C53 is IED.A60	C53. In theory, the present value of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows: (a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent (CU780 – [CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of CU758 (CU780 – CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is CU722 (CU758/1.05). (b) Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value of the asset is CU722 (CU780/1.08).	*IFRS 13.B29*
Paragraph C54 is IED.A61	C54. When using an expected present value technique, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgments applied.	*IFRS 13.B30*
	Inputs to Measurement Techniques	

NOTES		Original Source
	General Principles	
Paragraph C55 is IED.A62	C55. Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.	*IFRS 13.67*
Paragraph C56 is IED.A64	C56. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following: (a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange. (b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment). (c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets. (d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.	*IFRS 13.B34*
Paragraph C57 is IED.A65	C57. An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability	*IFRS 13.69*

NOTES		Original Source
	(see paragraphs 32 and 33). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IPSAS that requires or permits the fair value measurement (see paragraphs 34 and 35). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph 6) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph 5.	
	Fair Value Hierarchy	
Paragraph C58 is IED.A66	C58. To increase consistency and comparability in fair value measurements and related disclosures, this Appendix establishes a fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value (see paragraphs C62–C89). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).	*IFRS 13.72*
Paragraph C59 is IED.A67	C59. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs of disposal, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.	*IFRS 13.73*
Paragraph C60 is	C60. The availability of relevant inputs and their relative subjectivity	*IFRS 13.74*

NOTES		Original Source
IED.A68	might affect the selection of appropriate measurement techniques (see paragraph C27). However, the fair value hierarchy prioritizes the inputs to measurement techniques, not the measurement techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.	
Paragraph C61 is IED.A69	C61. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.	*IFRS 13.75*
	Level 1 Inputs	
Paragraph C62 is IED.A70	C62. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	*IFRS 13.76*
Paragraph C63 is IED.A71	C63. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph C655.	*IFRS 13.77*
Paragraph C64 is IED.A72	C64. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following: a. The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and b. Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.	*IFRS 13.78*

NOTES		*Original Source*
Paragraph C65 is IED.A73	C65. An entity shall not make an adjustment to a Level 1 input except in the following circumstances: a. When an entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy. b. When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy. c. When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph AG143F of IPSAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.	*IFRS 13.79*
Paragraph C66 is IED.A74	C66. If an entity holds a position in a single asset or liability	*IFRS 13.80*

NOTES		Original Source
	(including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.	
	Level 2 Inputs	
Paragraph C67 is IED.A75	C67. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	*IFRS 13.81*
Paragraph C68 is IED.A76	C68. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following: (a) Quoted prices for similar assets or liabilities in active markets. (b) Quoted prices for identical or similar assets or liabilities in markets that are not active. (c) Inputs other than quoted prices that are observable for the asset or liability, for example: (i) Interest rates and yield curves observable at commonly quoted intervals; (ii) Implied volatilities; and (iii) Credit spreads. a. Market-corroborated inputs.	*IFRS 13.82*
Paragraph C69 is IED.A77	C69. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following: (a) The condition or location of the asset; (b) The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph AG143F of IPSAS 41; and (c) The volume or level of activity in the markets within which the inputs are observed.	*IFRS 13.83*
Paragraph C70 is IED.A78	C70. An adjustment to a Level 2 input that is significant to the entire	*IFRS 13.84*

NOTES		Original Source
	measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.	
Paragraph C71 is IED.A79	C71. Paragraph 2 describes the use of Level 2 inputs for particular assets and liabilities.	*IFRS 13.85*
Paragraph C72 is IED.A80	C72. Examples of Level 2 inputs for particular assets and liabilities include the following: a. Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement. b. Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement. c. Building held and used. A Level 2 input would be the price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations. d. Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational,	*IFRS 13.B35*

NOTES		Original Source
	market, financial and non-financial factors.	
Paragraph C73 is IED.A81	*Level 3 Inputs* C73. Level 3 inputs are unobservable inputs for the asset or liability.	*IFRS 13.86*
Paragraph C74 is IED.A82	C74. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.	*IFRS 13.87*
Paragraph C75 is IED.A83	C75. Assumptions about risk include the risk inherent in a particular measurement technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurement technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs C766–C866).	*IFRS 13.88*
	Measuring Fair Value When The Volume Or Level Of Activity For An Asset Or A Liability Has Significantly Decreased	
Paragraph C76 is IED.A84	C76. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following: (a) There are few recent transactions. (b) Price quotations are not developed using current information.	*IFRS 13.B37*

NOTES		Original Source
	(c) Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets). (d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability. (e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability. (f) There is a wide bid-ask spread or significant increase in the bid-ask spread. (g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities. (h) Little information is publicly available (e.g., for transactions that take place in a principal-to-principal market).	
Paragraph C77 is IED.A85	C77. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).	*IFRS 13.B38*
Paragraph C78 is	C78. This Appendix does not prescribe a methodology for making	*IFRS 13.B3*

NOTES		Original Source
IED.A86	significant adjustments to transactions or quoted prices. See paragraphs C26–C29 and C31–C40 for a discussion of the use of measurement techniques when measuring fair value. Regardless of the measurement technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph C48). Otherwise, the measurement does not faithfully represent fair value. In some cases determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.	9
Paragraph C79 is IED.A87	C79. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurement technique or the use of multiple measurement techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurement techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.	IFRS 13.B40
Paragraph C80 is IED.A88	C80. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.	IFRS 13.B41
Paragraph C81 is IED.A89	C81. Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgment. An entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair	IFRS 13.B42

NOTES		Original Source
	value is a market-based measurement, not an entity-specific measurement.	
	Identifying Transactions that are not Orderly	
Paragraph C82 is IED.A90	C82. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following: a. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions. b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant. c. The seller is in or near bankruptcy or receivership (i.e., the seller is distressed). d. The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced). e. The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability. An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.	*IFRS 13.B43*
Paragraph C83 is IED.A91	C83. An entity shall consider all the following when measuring fair value or estimating market risk premiums: (a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price. (b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when	*IFRS 13.B44*

NOTES		Original Source
	compared with other indications of fair value will depend on the facts and circumstances, such as the following: (i) The volume of the transaction. (ii) The comparability of the transaction to the asset or liability being measured. (iii) The proximity of the transaction to the measurement date. (c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly. An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.	
	Using Quoted Prices Provided by Third Parties	
Paragraph C84 is IED.A92	C84. This Appendix does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Appendix.	*IFRS 13.B45*
Paragraph C85 is IED.A93	C85. If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a measurement technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.	*IFRS 13.B46*

NOTES		Original Source
Paragraph C86 is IED.A94	C86. Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.	*IFRS 13.B47*
Paragraph C87 is IED.A95	C87. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g., an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.	*IFRS 13.89*
Paragraph C88 is IED.A96	C88. Paragraph C89describes the use of Level 3 inputs for particular assets and liabilities.	*IFRS 13.90*
Paragraph C89 is IED.A97	C89. Examples of Level 3 inputs for particular assets and liabilities include the following: a. Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves. b. Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option. c. Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not	*IFRS 13.B36*

NOTES		*Original Source*
	directly observable and cannot otherwise be corroborated by observable market data. d. Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfill the obligation (including market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows. e. Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.	

NOTES		Original Source
	Appendix D: Cost of Fulfillment *This Appendix is an integral part of [draft] IPSAS [X] (ED 77).*	
	Measurement	
Paragraph D1 is IED.B1 *Paragraph D1(c) was deleted as it is included in (d) (see September 2020 Agenda item 7.2.28)*	D1. The objective of the cost of fulfillment measurement is to estimate the value of a liability assuming the entity will fulfill its obligation in the least costly manner. A cost of fulfillment measurement requires an entity to determine all the following: a. The particular liability that is the subject of the measurement (consistently with its unit of account). b. The manner in which the liability will be settled. c. The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs when pricing the liability.	*CP, Measurement*
	The Least Costly Manner	
Paragraph D2 is IED.B6	D2. The cost of fulfillment assumes that the liability is settled by the entity in the least costly manner.	*CP, Measurement*
Paragraph D3 is IED.B7	D3. The cost of fulfillment represents the amount the entity is obligated to incur to settle the liability. This obligation represents the minimum amount an entity will incur assuming the entity completely satisfies its obligation. For example, an entity may have an obligation to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfill the minimum obligation of restoring the land to its original condition and therefore are not representative of the cost to fulfill the liability. In cases where an entity intends to fulfill the liability beyond its commitment, guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, should be applied when accounting for amount in excess of the cost to fulfill.	*CP, Measurement*
Paragraph D4 is IED.B8	D4. The entity must have the ability to access the fulfillment method that results in the obligation being settled in the least costly manner at the expected fulfillment date. Because different entities (and operations within those entities) with different activities may have access to a variety of fulfillment methods, the least costly manner for the same liability might	*CP, Measurement*

NOTES		Original Source
	be different for different entities (and operations within those entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities and circumstances	
Paragraph D5 is IED.B9	D5. An entity need not undertake an exhaustive search of all fulfillment methods to identify the least costly manner of fulfillment, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of fulfillment is presumed to be the manner in which the entity has currently selected to release itself from the obligation. For example, if an entity elects to fulfill its decommissioning liability using its own employees, it is presumed this is the least costly manner of fulfillment, regardless of the entity's ability to contract the decommissioning to third parties.	*CP, Measurement*
Paragraph D6 is IED.B10	D6. 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 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 and the entity has the ability to access the fulfillment method (see paragraph D4).	*IPSASB CF 7.76*
Paragraph D7 is IED.B11	D7. Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of 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.	*IPSASB CF 7.77*
	Entity-Specific Value	
Paragraph D8 is IED.B12 *Paragraph D8 was updated as public sector entities don't always act in their economic interest (see September 2020 Agenda Item 7.2.28)*	D8. The cost of fulfillment is an entity-specific value. An entity shall measure the cost of fulfillment of a liability using the assumptions from the entity's perspective, assuming the entity acts in accordance with its own public sector objective.	*CP, Measurement*
Paragraph D9 is IED.B13	D9. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability,	*CP, Measurement*

NOTES		Original Source
Paragraph D9 (d) was updated to remove the requirement to include a risk premium (see September 2020 Agenda Item 7.2.28)	considering factors specific to all the following: a. The liability; b. The entity's expectations about the amount and timing of future outflows of resources; and c. The time value of money. Whether a risk premium is included in the calculation will depend on guidance in the relevant IPSAS.[2]	
Paragraph D10 is IED.B14 *Paragraph D10 was updated to remove repetition with IED.B15 and to add clarity (see September 2020 Agenda Item 7.2.28)*	D10. When estimating market based assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.	*CP, Measurement*
	The Cost that the Entity Will Incur	
Paragraph D11 is IED.B16	D11. The cost of fulfillment estimates the cost assuming the entity settles obligation.	*CP, Measurement*
Paragraph D12 is IED.B17 *Paragraph D12 amended to create better lead into the transaction costs in paragraph D13.*	D12. A cost of fulfillment measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the entity expects to incur to satisfy the obligation. Those future outflows of resources include the amounts: a. To be transferred to the liability counterparty; and b. The entity expects to be obliged to transfer to other parties to settle the liability.	*CP, Measurement*
Paragraph D13 is IED.B18	D13. The price used to measure the cost of fulfilling the liability shall not be adjusted for *transaction costs* incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the entity expects to incur. In contrast, transaction costs that are expected to be incurred, , in settling the liability i.e., exit-based are a future outflow of resources that is relevant in measuring the cost to fulfill the liability and are included in measuring the cost of fulfillment.	*CP, Measurement*
Paragraph D14 is IED.B19	D14. 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	*IPSASB CF 7.75*

[2] When including a risk premium in measuring cost of fulfillment, an entity should perform the measurement from the perspective of the entity holding the liability rather than from the perspective of the market participant as noted in paragraph 6.

NOTES		Original Source
	possible outcomes in an unbiased manner.	
Paragraph D15 is IED.B20	D15. Where fulfillment of the obligation will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date using a measurement technique. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the obligation to be settled within one year.	*IPSASB CF 7.78*
	Settling its Obligations	
Paragraph D16 is IED.B21	D16. The cost of fulfillment is the cost that the entity expects to incur to settle its obligation in the normal course of operations.	*CP, Measurement*
Paragraph D17 is IED.B22 *Paragraph D17 was updated as counterparties are often unknown on measurement date (See September 2020 Agenda Item 7.2.28)*	D17. In estimating the cost to settle its obligation in the normal course of operations, the entity assumes the obligation will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.	*CP, Measurement*
Paragraph D18 is IED.B23	D18. In estimating the cost of fulfillment the entity takes into account all readily available information at the measurement date under current market conditions in estimating the outflow of resources required to settle the liability at the expected fulfillment date.	*CP, Measurement*
Paragraph D19 is IED.B24	D19. The cost of fulfillment shall not include the non-performance risk of the entity to settle its obligation. A cost of fulfillment measurement is a measure of the value of a liability assuming the entity will fulfill its obligations. As non-performance risk takes into account the effect on the value of a liability of the entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of fulfillment measurement assumes the lability will be fulfilled in the normal course of operations.	*CP, Measurement*
	Measurement Techniques	
	D20. The cost of fulfillment cannot be observed directly in an active market. It is determined using measurement techniques.	*Based on C26 of fair value AG for consistency*
Paragraph D21 is IED.B25	D21. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure the cost of fulfillment. The cost of	*CP, Measurement*

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	fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.	
Paragraph D22 is IED.B26	D22. 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. The most commonly used valuation approach when measuring the cost of fulfillment is an income approach. The main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs D23–D48.	*CP, Measurement*
	Income Approach	
Paragraph D23 is added to reflect the application of measurement techniques	D23. Applying the income approach to estimate the cost of fulfillment shall take into account the attributes of the cost of fulfillment measurement basis. This includes: a. Estimates of future cash flows. b. Possible variations in the estimated amount or timing of future cash flows for liability being measured, caused by the uncertainty inherent in the cash flows. c. The time value of money. d. Other factors that impact the value of the liability.	*Based on* ***Error! Reference source not found.*** *of fair value AG for consistency*
Paragraph D24 is IED.B29	D24. Paragraphs D25–D48 describe the use of present value techniques to measure the cost of fulfillment. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the cost of fulfillment to the techniques discussed. The present value technique used to measure the cost of fulfillment will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.	*CP, Measurement*
	Future Outflows of Resources	
Paragraph D25 is IED.B38	D25. The estimates of outflows of resources used to determine the cost of fulfillment shall include all inflows of resources and outflows of resources that relate directly to the fulfillment of the liability. Those estimates shall: a. Be explicit (i.e., the entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of	*CP, Measurement*

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	resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources); b. Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs D30–D34); c. Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the entity fulfills the liability (see paragraph D35); and d. Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs D36–D40).	
	Uncertainty and the Expected Value Approach	
Paragraph D26 is IED.B39	D26. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources are not conditional upon the occurrence of any specified event (unlike the outflows of resources used in the discount rate adjustment technique).	*CP, Measurement*
Paragraph D27 is IED.B40	D27. In determining the expected outflows of resources an entity must: a. Identify each possible outcome; b. Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome; and c. Make an unbiased estimate of the probability of each outcome.	*CP, Measurement*
Paragraph D28 is IED.B41	D28. Paragraph D27 requires the estimate of expected values	*CP, Measureme*

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	reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.	*nt*
Paragraph is new to clarify least costly manner and expected value are not contradictory concepts (See September 2020 agenda item 7.2.28).	D29. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph D2 assumes that the liability is settled by the entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.	-
	Market Variables and Non-Market Variables (Paragraph D25.b)	
Paragraph D30 is IED.B42	D30. This Appendix identifies two types of variables: a. Market variables—variables that can be observed in, or derived directly from, markets (e.g., interest rates); and b. Non-market variables—all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).	*CP, Measurement*
	Market Variables	
Paragraph D31 is IED.B43	D31. Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall not substitute its own estimates for observed market prices except as described in paragraph C58. In accordance with Appendix C, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.	*CP, Measurement*
	Non-Market Variables	
Paragraph D32 is IED.B44	D32. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.	*CP, Measurement*
Paragraph D33 is IED.B45	D33. Non-market external data (e.g., national statistics for decommissioning of a nuclear power facility) may have more	*CP, Measurement*

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	or less relevance than internal data (e.g., internally developed statistics for decommissioning of a nuclear power facility), depending on the circumstances.	
Paragraph D34 is IED.B46	D34. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.	*CP, Measurement*
	Estimating Probabilities of Future Payments (Paragraph D25.c)	
Paragraph D35 is IED.B47	D35. An entity estimates the probabilities associated with future payments on the basis of: a. Information about the known or estimated characteristics of the liability; and b. Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted if, for example: i. The characteristics of the liability differ (or will differ, for example because of adverse selection) from those of the population that has been used as a basis for the historical data; ii. There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or iii. There have been changes in the entity's practices or procedures that may affect the relevance of historical data to the liability.	
	Under Current Estimates (Paragraph D25.d)	
Paragraph D36 is IED.B48	D36. In estimating the probability of each outflow of resources scenario, an entity shall use all of the available current information at the measurement date. An entity shall review the estimates of the probabilities that it made at the end of the previous measurement date and update them for any changes. In doing so, an entity shall consider whether: a. The updated estimates faithfully represent the conditions at the end of the measurement date; and	*CP, Measurement*

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	b. The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.	
Paragraph D37 is IED.B49	D37. The probability assigned to each scenario shall reflect the conditions at the measurement date. Consequently, in accordance with IPSAS 14, *Events After the Reporting Date*, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommission. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with IPSAS 14, that a non-adjusting event occurred after the end of the reporting period).	*CP, Measurement*
	Future Events (Paragraph D25.d)	
Paragraph D38 is IED.B50	D38. Estimates of non-market variables shall consider not just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods decreasing decommissioning costs. The determination of the outflow of resources reflects	*CP, Measurement*

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	the probabilities that would be assigned to each possible trend scenario in the light of all the available evidence.	
Paragraph D39 is IED.B51	D39. Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.	*CP, Measurement*
Paragraph D40 is IED.B52	D40. When estimating the outflow of resources associated with fulfilling the liability, an entity shall take into account future events that might affect the outflow of resources. The entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, an entity shall not take into account future events, such as a change in legislation, that would change or discharge the present obligation or create new obligations under the existing liability.	*CP, Measurement*
	Time Value of Money	
Paragraph D41 is IED.B53	D41. Entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.	*CP, Measurement*
Paragraph D42 is IED.B54	D42. An entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall: a. Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity. b. Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.	*CP, Measurement*
Paragraph D43 is IED.B55	D43. When using a risk-free rate, the logical sources of reference	*CP, Measureme*

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	rates are high quality bonds, for example, bonds issued by a financially sound government. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.	*nt*
Paragraph D44 is IED.B56	D44. Although rates on high quality government bonds will not need to be adjusted for default risk in determining the risk-free discount rate, they may need to be adjusted for liquidity risk. Some government bonds are traded in deep and liquid markets enabling bond holders to readily sell them at minimal cost. The rate payable on such bonds is lower than the rate payable on an equivalent illiquid bond. Accordingly, it might be necessary to include a 'premium for illiquidity' in the observed rate for government bonds that are not traded in deep and liquid markets.	*CP, Measurement*
	Inputs to Measurement Techniques	
	General Principles	
Paragraph D45 is IED.B57	D45. Measurement techniques used in a cost of fulfillment measurement reflects entity-specific assumptions rather than assumptions used by market participants.	*CP, Measurement*
Paragraph D46 is IED.B58	D46. The cost of fulfillment measurement is an entity-specific valuation. When a measurement technique is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph D10). The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the entity, from the entity's perspective. For example, when measuring the cost to fulfill a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the entity.	*CP, Measurement*
Paragraph D47 is IED.B59	D47. In some cases, the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However, a cost of fulfillment measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the IPSAS that requires or permits the	*CP, Measurement*

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	cost of fulfillment measurement.	
Paragraph D48 is IED.B60	D48. When a liability will settle at a future date, the assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on fulfillment and the associated discount rate are both based on information available at the measurement date.	*CP, Measurement*

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	Basis for Conclusions *This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS {X} (ED 77).*	
	Introduction *The Purpose of Measurement in Public Sector Financial Statements*	
Paragraph BC1 is IED.BC1	BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities and related revenues and expenditures that users need for accountability and decision-making. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as: (a) Whether the entity provided its services to constituents in an efficient and effective manner; (b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use; (c) To what extent the burden on future-year taxpayers of paying for current services has changed; and (d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.	
	Service Delivery Objective and Public Sector Assets and Liabilities	
Paragraph BC2 is IED.BC2.	BC2. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, in the public sector the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities is specialized—for example, roads and military assets. There may be a limited market for specialized assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.	
Paragraph BC3 is IED.BC3	BC3. Another common feature of public sector assets is that they are held to achieve policy objectives, such as service delivery, which need to be taken into account when measurement aims to derive a value that reflects existing use.	
Paragraph BC4 is IED.BC4	BC4. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other	

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	artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.	
Paragraph BC5 is IED.BC5	BC5. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation.	
	Measurement of Assets and Liabilities for Financial Reporting by Public Sector Entities	
Paragraph BC6 is IED.BC6	BC6. Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In developing Chapter 7 the IPSASB took into account the special characteristics of the public sector, the needs of users, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.	
Paragraph BC7 is IED.BC7	BC7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.	
Paragraph BC8 is IED.BC8	BC8. The objective of measurement and the measurement bases in Chapter 7 of the Conceptual Framework address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows.	
Paragraph BC9 is IED.BC9	BC9. 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.	
	Relationship Between ED, *Measurement* and Other IPSAS	
Paragraph BC10 is IED.BC10	BC10. During development of this ED the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one Standard, in order to provide a comprehensive "one stop shop". However, the IPSASB concluded that other IPSAS should address impairment, depreciation, amortization, and any specific measurement requirements relating to the assets or liabilities	

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	covered by the IPSAS, for example the measurement of intangible assets or of employee benefit liabilities. [Draft] IPSAS [X], ED 77, *Measurement*, should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework. The aim is to support consistent application of measurement bases referred to in other IPSAS.	
Paragraph BC11 is IED.BC11	BC11. The IPSASB decided to develop appendices for the following four measurement bases: historical cost , current operational value, fair value, and cost of fulfillment , because the greater need for guidance relates to these four measurement bases.	
Paragraph BC12 is IED.BC17	**Objective (paragraph 1)** BC12. ED 77's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which measurement bases should be used in IPSAS. The ED's objective refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.	
	Structure of Measurement Standard	
Paragraph BC13 is added by IPSASB September Instruction (Agenda Item 7.2.24)	BC13. One objective of the measurement project is to provide detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used.	
Paragraph BC14 is added by IPSASB September Instruction (Agenda Item 7.2.24)	BC14. In order to satisfy this objective, the IPSASB agreed core text should define key terms and provide generic principles for measurement bases and techniques while the appendices would expand on principles for measurement bases and outline how measurement techniques are applied when estimating the value of an asset or liability measured by a specific measurement basis.	
Paragraph BC15 is added by IPSASB September Instruction (Agenda Item 7.2.24)	BC15. The IPSASB concluded this structure is appropriate because: (a) Core text stands alone. Including principle level guidance for measurement bases and measurement techniques in the core text allows it to be read and applied independently of the appendices . (b) Minimal duplication. The most significant challenge to overcome in structuring the material was to reduce the duplication of measurement technique guidance between the core text and the appendices , and within the appendices . This was a challenge because some measurement techniques can be applied to more than one measurement basis. The structure of the [draft] Standard allows for key measurement techniques and principles to be included once in the core text, and application of those principles to each measurement basis to be included in the appropriate appendix .	
Paragraph BC16 is IED.BC18	**Scope and Definitions (paragraphs 2–6)** BC16. ED 77's scope conveys that the [draft] Standard's definitions of measurement bases and related appendices apply when another IPSAS requires measurement using one of the defined	

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	measurement bases. As part of its scoping decision, the IPSASB considered whether the ED should include guidance on the measurement of assets held for sale, as envisioned in ED 79, *Non-Current Assets Held for Sale and Discontinued Operations*. The IPSASB noted that the issues relating to the measurement of assets held for sale are similar to those relating to the measurement of impaired assets, which is outside the scope of the project. Therefore, it was decided that the measurement of assets held for sale should also be excluded.	
	Initial Measurement (paragraphs 7–16)	
IPSASB October Instruction	BC17. The IPSASB discussed the applicability of the measurement hierarchy to initial and subsequent measurement and concluded that it is applicable to measurement in the financial statements (i.e., subsequent measurement).	
IPSASB October Instruction	BC18. Unless otherwise required or permitted by another IPSAS, on the transaction date, an asset or liability is initially measured at its transaction price or, when the transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes, at a deemed cost. This approach is applied regardless of whether the current value model or historical cost model is applied when measuring assets and labilities in the financial statements. For this reason, the IPSASB concluded that initial recognition in the financial statements is based on a measurement after the transaction date and thus the hierarchy applies to subsequent measurement.	
IPSASB October Instruction	BC19. A transaction price is applied, where appropriate, because transactions occurring in orderly markets are negotiated between parties at arm's length and are presumed to faithfully present the economics of the transaction. The transaction price is therefore useful for decision-making purposes and to the users of the financial information to hold decision makers to account. Where transaction price is not appropriate, a deemed cost is calculated using a current value measurement technique to approximate the value of the asset or liability on the transaction date.	
IPSASB October Instruction	BC20. After measurement on the transaction date, the entity makes an accounting policy choice, where permitted, to apply a historical cost or current value measurement model to reflect the measurement objective of the item being measured. The accounting policy choice impacts the measurement when the item is first, and subsequently, recognized in the financial statements.	
	Amendments to Other IPSAS	
	BC21. The initial measurement guidance developed in [draft] IPSAS [X], ED 77, is principles-based and broadly applicable across the IPSAS suite of standards. When making amendments to other IPSAS as a result of [draft] IPSAS [X], ED 77, the IPSASB agreed the initial measurement requirements in individual IPSAS would not be replaced by the initial measurement principles in [draft] IPSAS	

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	[X], ED 77. The IPSASB concluded the more specific initial measurement guidance in specific IPSAS continues to be relevant and therefore should be retained.	
	Subsequent Measurement (paragraphs 17–53)	
Paragraph BC22 is IED.BC22	BC22. Use of the Historical Cost Model or Current Value Model The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB considered the options for measurement subsequent to initial recognition in existing IPSAS with a view to eliminating or reducing those options.	
Paragraph BC23 is IED.BC23	BC23. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).	
Paragraph BC24 is IED.BC24	BC24. The Conceptual Framework goes on to state that it is not possible to identify a single measurement basis that best meets the measurement objective and acknowledges both historical cost and current value measurements.	
Paragraph BC25 is IED.BC25	BC25. The IPSASB concluded that: (a) Where an accounting policy choice exists in an IPSAS to measure using the historical cost model or current value model, it would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and that *(b)* Such a step would be outside the scope of this ED, which is to provide requirements and guidance on the definitions and application of measurement bases (i.e., what is meant by each measurement basis and how to derive measurement bases), rather than to specify where they should be used. The latter is a decision for individual standards.	
Paragraph BC26 is IED.BC26	BC26. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Conceptual Framework Consultation Paper and ED on Measurement advocated the continued widespread use of historical cost, mostly in combination with other measurement bases. Supporters of historical cost referenced the accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.	
Paragraph BC27 is IED.BC27	BC27. Conversely those who supported current values, linked this view to both decision making and accountability, arguing that the cost of service provision should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price.	

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	Historical Cost (Appendix A)	
	Financial Instruments Measured at Historical Cost	
	Amortized Cost	
Paragraph BC28 is IED.BC28	BC28. The amortized cost of a financial asset or financial liability reflects estimates of future cash flows discounted at a rate that is not updated after initial recognition. For loans given or received, if interest is receivable or payable regularly, the amortized cost of the loan typically approximates the amount originally paid or received. Therefore, the amortized cost of a financial asset or liability is considered to be a form of historical cost.	
	Current Operational Value (Appendix B)	
Paragraph BC29 is added by IPSASB decisions (see October 2020 Agenda Items 1.2.2)	BC29. Most responses to the April 2019 Measurement Consultation Paper agreed with the IPSASB's preliminary view that. fair value is relevant and applicable in measuring some assets and liabilities in the public sector. Constituents' concerns with fair value related to the fact that when an item is held for its operational capacity, as is often the case in the public sector, fair value is difficult and inappropriate to apply because the following concepts generally are not applicable: (c) Highest and best use; and (d) Maximizing the use of market participant data.	-
Paragraph BC30 is added by IPSASB decisions (see October 2020 Agenda Items 1.2.2)	BC30. While respondents agreed the fair value definition proposed is applicable in some circumstances, they also noted the definition is unlikely to be appropriate as a current value measurement basis in most cases. Respondents expressed the view that a public sector specific measurement is required.	-
Paragraph BC31 is added by IPSASB decisions (see October 2020 Agenda Items 1.2.2)	BC31. The IPSASB agreed with respondents' views and developed a current value measurement basis unique to the public sector. Given fair value is applied to items held for their financial capacity, this basis was developed specifically for assets held for their operational capacity.	-
Paragraph BC32 was added to clarify the decisions for COV.	BC32. When assets are held for their operational capacity in the public sector, they are held to achieve a service delivery objective. Holding an asset to meet a service delivery objective often results in an asset being held in a capacity other than that of one that satisfies its highest and best financial use. For example, an entity may have a service delivery objective to provide medical services to citizens of a city center. While operating a building the entity owns as a hospital may not be in the best financial interests of the entity, it does satisfy the service delivery objective.	-
Paragraph BC33 was added to clarify the decisions for COV.	BC33. The IPSASB agreed that, when an asset is held for its operational capacity, the most relevant information to the users of financial information is the current value of the asset in its current use. This provides users with useful information in the public sector. (a) In the statement of financial position, it reflects the amount an entity would incur at the measurement date to	-

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	replace the capacity to achieve its present service delivery objective using its existing assets. (b) In the statement of financial performance, the consumption of the asset, through depreciation, reflects the amount the entity would incur during the period to provide the service at the prevailing prices when an asset is measured. This differs from historical cost, which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired.	
	Current Operational Value – Service Delivery Objective	
Paragraph BC34 was added to clarify the decisions for COV.	BC34. The term service delivery objective was used to define current operational value to emphasize the development of the measurement basis related to the measurement of assets held for their operational capacity. While assets used to achieve the entity's service delivery objective may generate cash flows, that is not the service delivery objective.	
Paragraph BC35 was added to clarify the decisions for COV.	BC35. For example, the federal government may have a service delivery objective to issue passports to its citizens as a means of identification for international travel. Many federal governments generate cash flows from this activity. However, the objective is to provide a service, while the cash flows generated contribute to covering costs.	
	Current Operational Value – Surplus Capacity	
Paragraph BC36 was added to clarify the decisions for COV.	BC36. Respondents to the Measurement Consultation Paper identified highest and best use as a concept that is not applicable when measuring certain assets held in the public sector. Where an entity elects to forgo capacity, the IPSASB discussed whether this capacity should be included in the measurement of current operational value. The IPSASB discussed several examples, including the following two:: (a) An entity operates a building at 80% capacity. The surplus capacity is not expected to be used during the building's useful life, although there are no specific constraints (such as security requirements) that prevent its use; and (b) A school was constructed with a capacity of 500 students. When the school was first opened, enrollment was at capacity. In subsequent decades, demographic shifts have reduced enrollment to 300 students. The expected enrollment for the remaining service life of the asset is 300 students.	
Paragraph BC37 was added to clarify the decisions for COV.	BC37. The IPSASB agreed surplus capacity should be included, except to the extent the asset is impaired in accordance with IPSAS 21 and IPSAS 26, when measuring current operational value because this represents presents the current value of the asset	

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	used to provide the service rather than the amount required to achieve the entity's present service delivery objectives in a hypothetical situation.	
	Current Operational Value – Alternative Sites	
Paragraph BC38 was added to clarify the decisions for COV.	BC38. The IPSASB noted that, in carrying out a valuation under the cost approach, valuation professionals would consider the cost of a site suitable for the delivery of the service delivery objectives from a modern equivalent asset. This might be a site of a similar size and in a similar location to the actual site. Where the actual site would no longer be considered appropriate because, for example, the service would be delivered more efficiently or effectively from another location, a hypothetical site in an appropriate location would be used as the basis for the land valuation, subject to discussion and agreement with the entity. BC39. Despite this, the IPSASB agreed that a valuation based on an alternative site would not achieve the objective of a current operational value measurement because it would not provide a value of the existing asset in its current use. Such valuations should be based on delivering the entity's service delivery objectives from the current site. BC40. The IPSASB noted that measuring land held for its operating capacity at its current location, total capacity and actual size may result in a valuation that is similar to a market participant valuation, or fair value. *Current Operational Value – Restrictions* BC41. The IPSASB is of the view that not all restrictions of the types referred to in paragraph B13 would reduce the entry price for an asset's service potential compared with the price of an equivalent unrestricted asset. Some of those restrictions legally limit an asset's operation to providing a particular service (for example, providing free or subsidized health services) but the nature of the asset effectively precludes alternative uses of the asset, in which cases the legal restriction has little (if any) effect on the asset's value. This would often occur with specialized assets.	
Paragraph BC42 was added to clarify the decisions for COV.	BC42. In some cases, a restriction on the use of an asset or the prices that may be charged to users of the asset's services would reduce the net cash inflows the asset is expected to generate and/or the asset's selling price, compared with those amounts without the restriction. However, such effects might not be accompanied by a reduction in the current entry price of the service potential embodied in the asset considered when estimating the asset's current operational value.	
Paragraph BC43 was added to clarify the decisions for	BC43. The only circumstance in which a restriction would reduce the current entry price of the service potential embodied in the asset—and therefore reduce the asset's estimated current	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
COV.	operational value—is where an equivalent restricted asset is obtainable in an orderly market. In such a circumstance, the vendor of the replacement asset to the public sector entity could obtain only a reduced amount from any prospective purchaser. Therefore, the public sector entity could replace the service potential embodied in its restricted asset for a reduced price.	
Paragraph BC44 was added to clarify the decisions for COV.	BC44. However, if an equivalent restricted asset were not obtainable in an orderly market to replace the service potential of the restricted asset being measured, the public sector entity would have no choice but to purchase an equivalent unrestricted asset (the price of which reflects its superior cash-generating ability to other bidders for the asset) to replace the service potential embodied in the asset. In this latter circumstance, the service potential of the asset held for its operational capacity would be no greater to the public sector entity, but the current entry price of that service potential would be greater (compared with the current entry price if an equivalent restricted asset were obtainable in an orderly market).	
Paragraph BC45 was added to clarify the decisions for COV.	BC45. Where an equivalent restricted asset is obtainable in an orderly market, the market entry price of an equivalent restricted asset would already reflect any effects that the restrictions have on the current entry price of the service potential embodied in the asset. That is, the restrictions would be taken into account in the measurement of the asset's current operational value, but would be implicit in the market price of the equivalent restricted asset, and therefore no explicit adjustment would be necessary. Where an equivalent restricted asset is obtainable in an orderly market, to be used in the measurement of the restricted asset's current operational value, it is necessary that the price of the equivalent restricted asset is supported by observable market evidence. This criterion is included to enable reliance to be placed on the value of that equivalent asset as an input to faithful representation of the restricted asset's current operational value. Where the price of the equivalent restricted asset is not supported by observable market evidence, the asset is measured at the price of an equivalent unrestricted asset.	
	Current Operational Value – Measurement Techniques	
Paragraph BC46 is added by IPSASB decisions (see October 2020 Agenda Items 1.2.2)	BC46. To support the application of current operational value, the IPSASB agreed each of the measurement techniques (market approach, cost approach and income approach) reflects the attributes of the measurement basis and can be applied in estimating the value of the asset when measured at current operational value. No hierarchy was developed to select the measurement technique. The IPSASB agreed the selection of the measurement technique that approximates the value of the asset under current operational value should be based on professional judgment. In most cases the IPSASB believes the selection should be straightforward as the measurement technique is generally selected based on the data available to the entity measuring the asset.	-

NOTES	DRAFT IPSAS XX, Measurement	Original Source
Paragraph BC47 is added by IPSASB decisions (see October 2020 Agenda Items 1.2.2)	BC47. For example, an active market for an identical asset may exist for certain types of assets. In these circumstances applying the market approach is likely to be a straightforward valuation. As the asset becomes more specialized, the existence of an active market likely decreases. In these circumstances the cost approach or the income approach is relevant. However, given public sector assets often generate little to no cash flows, and generally cash flows are insufficient to cover operating expenses, the IPSASB expected the application of the income approach when estimating the value of an asset under the current operational value basis to most likely be applied in conjunction with another measurement technique in estimating the present value of an amount that is unavailable at the measurement date. *Use of Current Operational Value throughout IPSAS* BC48. A review of existing IPSAS was performed to determine whether the public sector specific measurement basis, current operational value, should be added to, or replace, existing measurement bases in each IPSAS. BC49. The IPSASB agreed current operational value should be available to estimate the value of property, plant, and equipment within the scope of [draft] IPSAS [X], ED 78. The IPSASB added current operational value to historical cost and fair value as measurement bases available to estimate property, plant, and equipment because many items of property, plant, and equipment are held for their operational capacity in the public sector, which may not be accurately represented when applying fair value. The IPSASB identified other instances where current operational value may be appropriate throughout its literature. However, the IPSASB agreed any additional changes to measurement bases are best made through projects specific to the IPSAS in question to allow stakeholders to focus on the impact of the proposal. The IPSASB did not propose current operational value be added to any other IPSAS when this [draft] Standard was issued.	-
	Fair Value (Appendix C)	
Paragraph BC50 is IED.BC12	BC50. This ED has an appendix for the fair value measurement basis. During development of this ED the IPSASB considered whether the fair value measurement basis was relevant to measuring assets and liabilities held by public sector entities. The IPSASB concluded that: a. There are assets and liabilities held by public sector entities that should be measured at fair value; and, b. The term “fair value” should have the same meaning as that established by IFRS 13, Fair Value Measurement.	
Paragraph BC51 is IED.BC13	BC51. In reaching these two conclusions the IPSASB noted that there were references to fair value throughout IPSAS. However the definition of fair value in the initial suite of IPSAS was derived from a pre-IFRS 13 definition. IFRS 13 defines fair value as an exit value, as follows: *Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market*	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	participants at the measurement date.	
Paragraph BC52 is IED.BC14	BC52. The IPSASB's 2014 Conceptual Framework did not include fair value in its list of measurement bases, because the IPSASB considered that the IFRS 13 meaning of fair value would not be appropriate for many public sector assets and liabilities, because it is an exit value. However, during development of this [draft] Standard the IPSASB's work on financial instruments has demonstrated that an exit-based definition of fair value is relevant for many financial instruments and more generally assets held for financial rather than operational capacity.	
Paragraph BC53 is IED.BC15	BC53. The IPSASB decided, with support from members of its Consultative Advisory Group (CAG), that if the term "fair value" continues to be used in IPSAS, the same meaning as that in IFRS 13 should apply. This avoids confusion and supports good quality measurement, when using this measurement basis.	
Paragraph BC54 is IED.BC16	BC54. In June 2018 the IPSASB approved IPSAS 41, *Financial Instruments*, which is an IFRS-aligned IPSAS. IPSAS 41 identifies fair value as a measurement basis applicable to financial instruments. The IPSASB had already decided, in September 2017, that the Measurement project should allow for measurement at fair value, with the issue being one of how to integrate the IFRS 13 definition of fair value into IPSAS. The IPSASB decided that [draft] IPSAS [X], *Measurement*, should include the majority of IFRS 13 text to ensure that its definition of fair value would be consistent with that in IFRS 13, and adequately support IPSAS 41's requirements with respect to measurement of financial instruments at fair value. On that basis the ED's fair value appendix has reproduced the majority of IFRS 13 text and aims to ensure that the ED's definition of fair value is the same as that established in IFRS 13.	
	Use of Fair Value throughout IPSAS	
Paragraphs BC55 to BC56 are added by IPSASB decision (see June 2020 Agenda Item 7.2.3).	BC55. A review of existing IPSAS was performed to determine whether the updated fair value was applicable in IPSAS where the legacy "fair value" definition was applied. The IPSASB considered the components of the IFRS 13 definition of fair value to identify the key indicator or indicators of the appropriateness of fair value. The IPSASB concluded that the exit vs. entry distinction is not useful in selecting measurement bases (see BC7.16-BC7.19- of the IPSASB Conceptual Framework). The IPSASB noted that some jurisdictions considered the specialized vs. non-specialized distinction to be useful in considering whether fair value is an appropriate measurement basis. The IPSASB concluded that while the specialization of an asset is a useful distinction, it is not a clear determinant when assessing the appropriateness of fair value. Rather, the IPSASB agreed that an entity's intent to hold the asset or liability for either financial or operational capacity is the clearest indicator. The IPSASB concluded that fair value is an appropriate measurement basis when the asset is held or the liability incurred primarily for its financial capacity.	

NOTES	**DRAFT IPSAS XX, Measurement**	*Original Source*
	BC56. The IPSASB also cautioned against a "blanket approach" of fair value appropriateness by Standard, as there may be instances where the use of fair value appropriateness may differ by reporting entity in a consolidation, or where a cash-generating or non-cash-generating asset may have hybrid measurement objectives. It is important to consider transaction-specific and entity-specific considerations within each IPSAS when selecting measurement bases.	
Paragraph BC55 deleted as it referred to cash/non-cash generating assets, which is not the same as operating/financial capacity		
Paragraph BC57 is added by IPSASB decision (see September 2020 Agenda Item 7.2.23).	BC57. In cases where assets held for operational capacity and assets held for financial capacity are within the scope of the same IPSAS, an entity should exercise professional judgment, consider entity- and transaction-specific factors, and apply accounting principles in existing IPSAS. The primary measurement objective, and in turn the measurement basis, is determined for each individual asset or class of assets (i.e. assets with similar nature and use to an entity's operations within the same IPSAS). The IPSASB concluded that accounting principles to guide an entity to group assets of similar nature and determine the intended primary objective are sufficiently illustrated in existing IPSAS guidance.	
	BC58. The IPSASB concluded that the need for consequential amendments will be decided on a case by case basis in accordance with [draft] IPSAS [X], *Measurement*. In performing this analysis, the IPSASB reviewed each IPSAS and decided to retain the term fair value throughout IPSAS and apply this [draft] Standard's definition except for: (a) IPSAS 13, Leases, ([draft] IPSAS [X], Leases) where the term and existing fair value definition in IPSAS 13 are retained; (b) IPSAS 21, Impairment of Non-Cash-Generating Assets, where the term and existing fair value definition in IPSAS 21 are retained; and (c) IPSAS 32, Service Concession Arrangements: Grantor, where the term and existing fair value definition in IPSAS 32 are retained. In each instance where the term and existing fair value definition are retained, the IPSASB decided changes to these definitions of fair value should be considered as part of any projects specific to these IPSAS.	
Paragraph BC59 was added to indicate which IFRS 13 paragraphs have been excluded (see September	BC59. As noted in BC10, guidance in [draft] IPSAS [X], ED77 , is generic in nature. As such specific measurement guidance in IFRS 13 has been located in the applicable IPSAS. For example: BC60. IFRS 13 paragraphs 34-56 and 70-71 are specific to measuring financial instruments and have been added to IPSAS	

NOTES	**DRAFT IPSAS XX, Measurement**	*Original Source*
2020 agenda item 7.2.13)	41, Financial Instruments.	
	Value in Use	
Paragraph BC46 is added by December 2020 Agenda Items 4.2.1	BC61. One of the project's objectives was to provide more detailed guidance on the implementation of commonly used measurement bases and the circumstances under which these measurement bases will be used. In considering whether this [draft] Standard should include measurement guidance related to value in use, the IPSASB concluded value in use: (a) Is not commonly used – value in use is limited to impairment evaluations in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*; and (b) Is well understood both in application and identifying when it should be applied – IPSAS 21 and IPSAS 26 include extensive measurement guidance when applying a value in use measurement.	
Paragraph BC46 is deleted by December 2020 Agenda Items 4.2.1	BC62. The IPSASB agreed including value in use guidance in this [draft] Standard is unnecessary. This decision was supported by responses to the IPSASB Measurement Consultation Paper.	
	Application of Measurement Techniques	
Paragraph BC63 is added by IPSASB decisions (see September 2020 Agenda Items 7.2.6, 7.2.8, and 7.2.10)	BC63. Since measurement techniques consider the attributes of measurement bases, some techniques can be applied to multiple bases. As such, the IPSASB decided to place generic measurement technique guidance in the core text to reflect the generic nature of the measurement technique and enable that guidance to be applicable across multiple measurement bases.	
Paragraph BC64 is added by IPSASB decisions (see September 2020 Agenda items 7.2.7, 7.2.9, and 7.2.13)	BC64. The IPSASB considered how a measurement technique can be used to estimate a value of an asset or a liability under a measurement basis when a public sector entity uses data available to estimate and reflect the attributes of that basis. Based on this analysis, the IPSASB concluded: (c) The market approach can be used to estimate the fair value and current operational value measurement bases; (d) The income approach can be used to estimate the current operational value, fair value and cost of fulfillment measurement bases; and (e) The cost approach can be used to estimate the fair value and current operational value measurement bases. The IPSASB noted that judgment is required to select and apply the most appropriate technique to estimate a value of an asset or liability under a particular measurement basis for each transaction, that best meets the objective of that basis.	
	Depreciation and Amortization	
Paragraph BC65 is IED.BC19	BC65. Depreciation is a charge for the consumption of an asset	

NOTES	**DRAFT IPSAS XX, Measurement**	*Original Source*
	over its useful life. ED 77 does not address depreciation. Requirements and guidance on depreciation are provided at standards-level. For example, IPSAS 17, *Property, Plant and Equipment,* addresses: (a) The unit of account for depreciation; (b) The recognition of depreciation; (c) The point at which depreciation of an asset begins; (d) The relationship between economic and useful lives; (e) The circumstances under which land may be depreciated; (f) Depreciation methods; and (g) The relationship between the revenue generated by an asset and depreciation.	
Paragraph BC66 is IED.BC20	BC66. Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level, and ED 77 does not address amortization. IPSAS 31, *Intangible Assets*, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.	
Paragraph BC67 is IED.BC21	BC67. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example, IPSAS 17 requires that assets on the revaluation model with useful lives are depreciated. IPSAS 16, *Investment Property*, does not require depreciation of an investment property that is measured in accordance with the current value model subsequent to initial recognition.	
	Disclosures	
Paragraph BC68 is added to reflect disclosure requirements added in February 2021	BC68. The scope of the measurement project included the development of enhanced measurement disclosures that would apply across the IPSAS. In developing disclosures, the IPSASB agreed no additional disclosures were required for assets and liabilities measured using the historical cost model. As no-remeasurement occurs, there is no additional information to disclose as part of subsequent measurement.	
Paragraph BC69 is added to reflect disclosure requirements added in February 2021	BC69. For assets and liabilities measured using the current value model, the IPSASB agreed additional disclosures were required. With recurring remeasurements, new information is available as at each measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making.	
Paragraph BC70 is added to reflect disclosure	BC70. The IPSASB developed disclosures that are to be applied consistently across the IPSAS that require assets or liabilities be	

NOTES	**DRAFT IPSAS XX, Measurement**	*Original Source*
requirements added in February 2021	measured using a measurement basis available in the current value model. These disclosures were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied.	
	Transition	
Paragraph BC71 is added to reflect transitional provisions added in December 2020	BC71. The IPSASB concluded that although [draft] IPSAS X, ED 77 is a major new standard that incorporates the IFRS 13, *fair value* concept into IPSASB literature, much of the [draft] Standard is a codification of existing measurement guidance currently spread across many individual IPSAS. [Draft] IPSAS [X], ED 77 brings together generic measurement guidance, while transaction-specific guidance remains in those individual IPSAS.	
Paragraph BC72 is added to reflect transitional provisions added in December 2020	BC72. Consequently, the IPSASB decided that [draft] IPSAS [X], ED 77 should be effective for annual periods beginning on or after [Month Day, Year]. Because [draft] IPSAS [X], ED 77 applies when other IPSAS require or permit application of the measurement bases (and does not introduce any significantly new measurement principles), the IPSASB believes that the extended transition period for [draft] IPSAS [X], ED 77 provides enough time for entities, their auditors and users of financial statements to prepare for implementation of its requirements.	
Paragraph BC73 is added to reflect transitional provisions added in December 2020	BC73. The IPSASB proposed prospective application because a change between current value measures would be inseparable from a change in the current value measurements (i.e., as new events occur or as new information is obtained, e.g., through better insight or improved judgment). Therefore, the IPSASB concluded that [draft] IPSAS [X], ED 77 should be applied prospectively (in the same way as a change in accounting estimate).	