

## Exposure Draft (ED) 76 and 77 Summary—*Measurement Principles*

This summary provides an overview of [ED 76, Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements](#) and [ED 77, Measurement](#).

**Project Objective:**

These projects are part of the IPSASB's focus on updating measurement concepts and improving measurement guidance across IPSAS. These projects seek to:

- (a) Update the Conceptual Framework for developments related to the IPSASB's thinking on measurement and conceptual developments;
- (b) Provide additional detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these will be used;
- (c) Where necessary, propose amendments to IPSAS with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure.

**The Project Stage:**

The IPSASB issued ED 76 and ED 77 in April 2021. These EDs were issued as part of a package of measurement related EDs which also included [ED 78, Property, Plant, and Equipment](#) and [ED 79, Non-Current Assets Held for Sale and Discontinued Operations](#).

**Next Steps:**

The IPSASB seeks feedback on ED 76 and ED 77 to guide it in developing an updated Measurement Chapter in the Conceptual Framework and a final International Public Sector Accounting Standard® (IPSAS®).

**Comment Deadline:**

ED 76 and ED 77 are open for public comment until October 25, 2021.

**How to Respond:**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and a Word file. All comments will be considered a matter of public record and will be posted on the website.

## Brief History of the Measurement and Conceptual Framework Update Projects

The purpose of these projects is to enhance guidance for measurement bases widely applied throughout the IPSAS suite of standards.

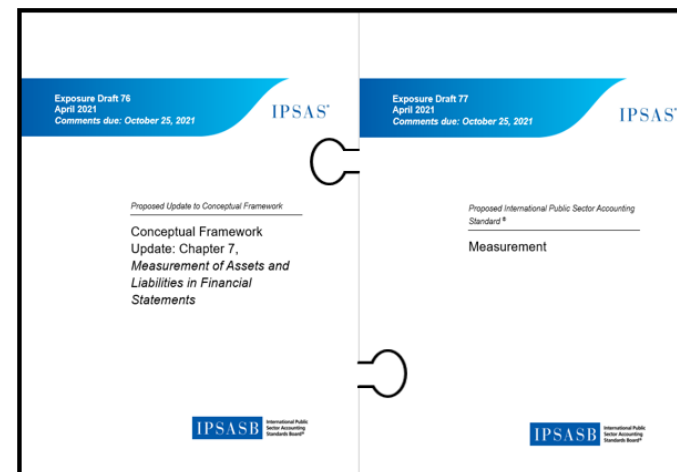
### Why the IPSASB Undertook these Projects

After completing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) in 2014, the IPSASB recognized a need to better align IPSAS measurement guidance with the principles in the Conceptual Framework.

#### *Measurement Project (ED 77)*

The project's objectives are to:

- (a) Amend existing IPSAS to revise requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosures;
- (b) Provide additional guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases are used; and
- (c) Address other measurement related issues, including transaction costs.



#### *Conceptual Framework – Limited-Scope Update (ED 76)*

The project's objective is to update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility and prevalence. ED 76 focuses on updating Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*.

These projects are managed holistically and on the same time frame to ensure consistency.

## Measurement Hierarchy – Subsequent Measurement

The measurement hierarchy illustrates how different components of measurement interact when determining the value of an asset or liability.

### Evolution of the Measurement Hierarchy

One of the main objectives of the project is to provide more detailed guidance on the application of the commonly used measurement bases in IPSAS. In addressing this point, the IPSASB evaluated its entire measurement framework to better illustrate how different components interact.

This results in the proposed measurement hierarchy in ED 76 which clarifies the IPSAS measurement framework.

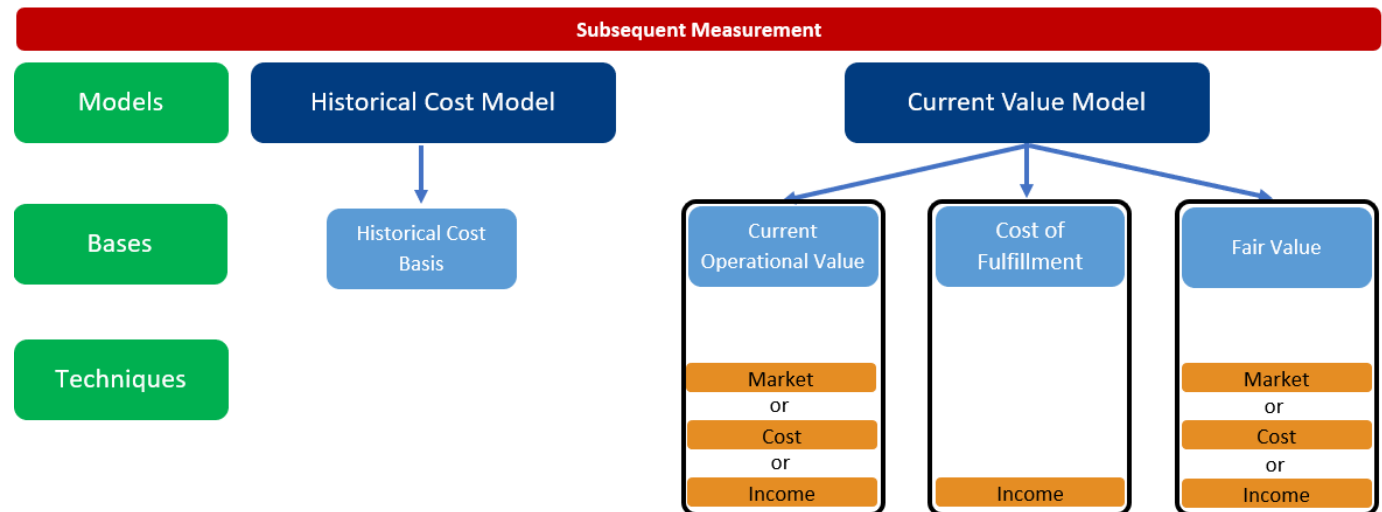
### Measurement Hierarchy

The measurement hierarchy in ED 76 seeks to explain how the various components required to estimate the value of an asset or liability interact in the context of IPSAS. In developing the measurement hierarchy, the IPSASB identified three levels of measurement:

**Measurement Models.** Approaches to present assets or liabilities.

**Measurement Bases.** Methods to present relevant and faithfully representative information under the measurement model selected.

**Measurement Techniques.** Methods to estimate the amount at which an asset or liability is presented under the selected measurement basis.



## Measurement Bases

### Historical Cost

- 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

### Cost of Fulfillment

- The cost that the entity will incur in fulfilling the obligations represented by the liability, assuming it does so in the least costly manner

### Current Operational Value

- The value of an asset used to achieve the entity's service delivery objectives at the measurement date

### Fair Value

- 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

### Measurement Bases

The EDs identify the measurement bases that are commonly applied in the IPSAS. The extent of use of the measurement basis in IPSAS was key in deciding whether additional implementation guidance is necessary.

For the four measurement bases identified:

- (a) ED 76 describes the measurement basis and evaluates the information they provide; and
- (b) ED 77 defines the measurement bases and provides separate appendices that include guidance on how the bases are implemented in practice.

## Current Operational Value

Current operational value is a measurement basis developed to capture the unique measurement characteristics of assets held by public sector entities.

### Filling a Hole

Respondents to the Consultation Paper, *Measurement*, strongly supported adding fair value as a measurement basis in IPSASB's literature. They also supported aligning the definition of fair value with that in IFRS 13, *Fair Value Measurement*.

However, many of these responses also identified challenges in applying fair value in the public sector. Constituents' concerns relate to assets held primarily for their operational capacity<sup>1</sup>, as is often the case in the public sector, fair value is inappropriate because the following concepts do not apply:

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

The IPSASB responded to these concerns by developing a public sector specific measurement basis for such assets.

### Current Operational Value

Current operational value measures the value of an asset, to the entity, 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 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 asset consumed in providing the service at current prices. This differs from historical cost which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired and initially recognized.

#### *Current Use*

To reflect characteristics of public sector assets, current operational value measures assets in their current use.

'Current use' reflects the way an asset or group of assets is being used by the entity, and 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 to achieve the policy objective rather than for commercial purposes.

<sup>1</sup> ED 76 defines operational capacity as the capacity of the entity to support the provision of services in future periods through physical and other resources.

## Other Key Proposals

ED 76 and ED 77 propose additional guidance in several areas of measurement.

### **Initial Measurement**

On the date an item meets recognition criteria, ED 76 and ED 77 propose the item shall be initially measured at its transaction price, unless the transaction price does not faithfully represent the asset or liability. In such cases the deemed cost of the asset or liability should be used.

While this guidance is largely consistent with existing IPSAS literature, the generic principle crystallizes the IPSASB's views on initial measurement of assets and liabilities.

### **Disclosures**

ED 77 proposes disclosure requirements for assets and liabilities measured using a measurement basis available under the current value model. These requirements increase as the observability of inputs in the measurement decrease.

These disclosures are proposed to be included in the specific IPSAS which specify the measurement requirements; not consolidated in ED 77.

## Next Steps:

The deadline for comments is **October 25, 2021**.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.



### How Can I Comment on the Proposals?

The EDs include Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and a Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

### Stay Informed

The IPSASB's website will indicate the meetings at which feedback on the ED will be discussed. The dates and the locations of 2021 meetings are available at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<https://www.ipsasb.org/consultations-projects/measurement>

and

<https://www.ipsasb.org/consultations-projects/limited-scope-update-conceptual-framework>.