

Meeting: International Public Sector Accounting Standards Board
Meeting Location: Toronto, Canada
Meeting Date: June 19–21, 2018

Agenda Item 12

For:
 Approval
 Discussion
 Information

Public Sector Measurement

Project summary	Project will revise IPSAS requirements for measurement and measurement-related disclosure, provide guidance on measurement and address the treatment of transaction costs and borrowing costs.	
	Topic	Agenda Item
Project management	Instructions —Up to June 2018 meeting	12.1.1
	Decisions —Up to June 2018 meeting	12.1.2
	Project roadmap	12.1.3
Decisions required at this meeting	Topic 1 : Flow chart—subsequent measurement of assets	12.2.1
	Topic 2 : Exposure draft text—subsequent measurement of assets	12.2.2
	Topic 3 : Fair value in the exposure draft	12.2.3
	Topic 4 : Equivalence table and note revisions since March 2018	12.2.4
	Topic 5 : Education session on measurement of liabilities	12.2.5
Supporting items	CP, Public Sector Measurement, and ED XX, Measurement	12.3.1
	Equivalence table	12.3.2

IPSASB Instructions—Up to June 2018 meeting and earlier

Meeting	Instructions	Actions
March 2018	1. Present combined CP and ED document using mark-up to identify text changes since March.	Done
	2. For ED, (a) locate definitions after scope paragraph(s); (b) include all IFRS 13 definitions and other material for fair value, (c) add a Basis for Conclusions, (d) remove ED footnotes, (e) review IPSAS 17 for coverage to include, and (f) retain two impairment IPSASs.	Done
	3. For the ED's Basis for Conclusions (a) include Chapter 7's discussion of fair value, (b) show relationship between fair value and market value, and (c) reflect IPSASB's decision that fair value may apply.	Done
	4. For CP, (a) consider whether outline approved in December should be revised, (b) revise arguments in Chapter 3 and circulate for intermeeting IPSASB review.	Done
	5. Develop a flow chart for measurement of assets and focus on asset measurement for June.	Done
	6. Transaction costs and borrowing costs: (a) consider how IVS define transaction costs, (b) develop two definitions for transaction costs related to entry/exit values, and (c) provide recommendation on whether transaction costs should be discussed in the CP or in the ED's Basis for Conclusions.	In progress
	7. Develop an equivalence table.	Done
	8. Consider qualitative characteristics and constraints as they apply to measurement.	In progress

Meeting	Instructions	Actions
Dec 2017	<ol style="list-style-type: none"> 1. Consider definitions used in International Valuation Standards (IVS) and Government Finance Statistics (GFS). 2. Monitor discount rate developments and bring paper to IPSASB's September 2018. 3. Review IPSASs against the Conceptual Framework with no presumption that current measurement requirements should continue. 4. Develop ED sections for the March 2018 IPSASB meeting. 	<ol style="list-style-type: none"> 1. Done 2. In progress 3. Done 4. Done
Sept 2017	<ol style="list-style-type: none"> 1. Develop a hybrid IPSAS that applies the Conceptual Framework to public sector specific (PSS) measurement issues and has a section on application of IFRS 13's approach to fair value (Option B) 2. Develop an outline of the CP 3. Develop a description of public sector specific (PSS) measurement issues 4. Develop proposals for when either a PSS measurement approach is needed or where an IFRS 13 fair value measurement approach could apply 5. Consider the boundary between IPSAS, <i>Measurement</i>, and individual IPSASs 6. Test responses to CP, <i>Heritage</i>, against the PS Measurement approach 	<ol style="list-style-type: none"> 1. In progress 2. Done 3. Done 4. Done 5. Done. See ED outline 6. Will apply ED principles

Meeting	Instructions	Actions
June 2017	<ol style="list-style-type: none"> 1. Consider convergence with IFRS, particularly scope to incorporate an IFRS 13, <i>Fair Value Measurement</i>, approach into IPSAS 2. Apply the Conceptual Framework's measurement objective to the treatment of transaction costs 3. For September 2017 IPSASB meeting: <ol style="list-style-type: none"> a) Bring back the transaction costs and borrowing costs issues as part of a more general discussion of asset valuation for the IPSASB's consideration; b) Provide an education session on IFRS 13 and its post-implementation review; and c) Discuss ways to address fair value in IPSAS, in the context of the Conceptual Framework's approach to current value measurement and IFRS 13's approach. 	<ol style="list-style-type: none"> 1. Done 2. Done 3 (a) Done 3 (b) Done 3 (c) Done
March 2017	<ol style="list-style-type: none"> 1. Revise project brief and create project page 2. Develop a questionnaire for IPSASB/Technical Adviser/Observers' input on the project's scope 3. Identify project work streams 4 Provide education session on the IASB's post implementation review of IFRS 13 in September 5. Log information on how other IPSASB projects relate to the Public Sector Measurement project 	<ol style="list-style-type: none"> 1. Done 2. Done 3. Done 4 Done 5 Done
September 2015 to December 2016	Project awaits start. First discussion in March 2017	Done
June 2015	Revise project brief for IPSASB revisions.	Done

IPSASB Decisions—Up to March 2018 meeting

Meeting	Decisions
March 2018	<ol style="list-style-type: none"> 1. Agreed ED paragraphs for objective and scope 2. ED, <i>Measurement</i> will cover measurement for all IPSASs 3. ED, <i>Measurement</i>, will include IFRS 13 text, not refer to IFRS 13 4. ED, <i>Measurement</i>, will have a Basis for Conclusions 5. Agreed a Preliminary View to expense all borrowing costs
December 2017	<ol style="list-style-type: none"> 1. Apply ED and CP outlines (December 2017 meeting) for their development 2. For project's timeline, Route 1 used for planning purposes
September 2017	<ol style="list-style-type: none"> 1. The CP will wrap around an ED 2. IPSAS, <i>Measurement</i>, should be a hybrid IPSAS that applies the Conceptual Framework to public sector specific measurement issues and has a section on application of IFRS 13 fair value 3. Treatment of borrowing costs issue will be included in the CP 4. Project will address measurement of heritage and infrastructure assets through Application Guidance in IPSAS, <i>Measurement</i>
June 2017	Work on measurement guidance and disclosures will occur after work on measurement bases
March 2017	Approved revisions to the project brief
September 2015 to December 2016	No decisions as project awaits start. First discussion will be in March 2017.
June 2015	Approved the "Public Sector Measurement" project brief

Public Sector Measurement Project Roadmap

Meeting	Completed Discussions/ Planned Discussions:
March 2017	<ol style="list-style-type: none"> 1. Introduction to the project. 2. Project objectives and timetable. 3. Revised project brief.
June 2017	<ol style="list-style-type: none"> 1. Preliminary analysis of IPSAS measurement requirements, including treatment of transaction costs.
September 2017	<ol style="list-style-type: none"> 1. Education session on Measurement in the Conceptual Framework, IFRS 13, Fair Value Measurement, Government Finance Statistics (GFS) reporting guidelines and International Valuation Standards (IVS). 2. Options for broad approach. 3. Valuation, transaction costs and borrowing costs. 4. Issues raised by IPSAS measurement of liabilities.
December 2017	<ol style="list-style-type: none"> 1. Approval of outline of draft Consultation Paper (CP) and Exposure Draft (ED) and revisions to the Project Roadmap. 2. Public Sector Measurement – contextual paper. 3. The approach to reviewing IPSASs for public sector measurement requirements and fair value references, including examples.
March 2018	<ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on scope.
<i>Indicative</i>	<i>Indicative</i>
June 2018	<ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on Objective, Scope, Definitions, Transaction and Borrowing Costs, and Measurement on Initial Recognition. Subsequent Measurement.
September 2018	<ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on Measurement on Derecognition, and Disclosures in respect of Measurement. 2. Consideration of links with Infrastructure and Heritage projects in terms of Application Guidance and Amendments to Other IPSASs.
December 2018	<ol style="list-style-type: none"> 1. Decision on consultation methodology (Route 1 or Route 2). 2. Approval of any Application Guidance or outline Amendments to Other IPSASs available by December 2018. 3. Approve the CP/ED for issuance.
Mid-January to mid-May 2019	<ol style="list-style-type: none"> 1. Consultation Period
March 2019	<ol style="list-style-type: none"> 1. Consider further Application Guidance if available. 2. Consider further Amendments to Other IPSASs if available.

Agenda Item

12.1.3

Meeting	Completed Discussions/ Planned Discussions:
June 2019	<ol style="list-style-type: none"> 1. Initial review of responses to consultation. 2. Discussion of issues raised by constituents. 3. Consider further Application Guidance if available. 4. Consider further Amendments to Other IPSASs if available.
	Route 1
September 2019	<ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement.
December 2019	<ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement
March 2020	<ol style="list-style-type: none"> 1. Approve IPSAS on Public Sector Measurement. 2. Consider consequential amendments in respect of Application Guidance and Amendments.
June 2020	<ol style="list-style-type: none"> 1. Consider consequential amendments in respect of Application Guidance and Amendments.
Mid-July to mid-November 2020	
September 2020	<ol style="list-style-type: none"> 1. Approve ED on consequential amendments in respect of Application Guidance and Amendments.
Mid-October 2020 to mid-Feb 2021	<ol style="list-style-type: none"> 1. Consultation Period.
December 2020	
March 2021	<ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Review of draft pronouncement on consequential amendments.
June 2021	<ol style="list-style-type: none"> 1. Approve pronouncement on consequential amendments

1. Flow chart—Subsequent Measurement of Assets

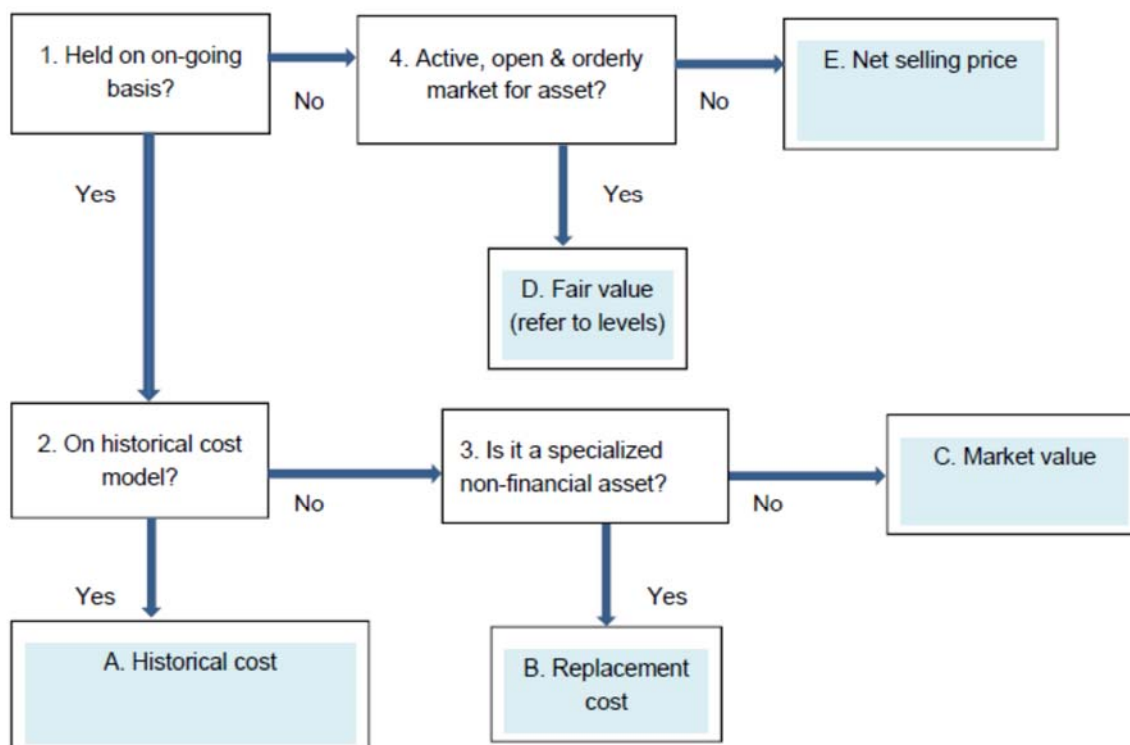
Question

1. What are the IPSASB's views on the flow chart for subsequent measurement of assets?

Detail

1. In March 2018, the IPSASB directed the Task Force and staff to develop a flow chart, for review in June, to guide the choice of measurement bases in individual IPSAS. The flow chart below reflects discussions with the Task Force and subsequent directions from the IPSASB and Task Force Chairs. It is a work-in-progress, which provides a basis for IPSASB discussion, with acknowledgment that revisions may be necessary as the IPSASB extends its consideration of measurement issues to other types of assets and situations. As the Task Force and staff refine the flow chart, insights from IPSASB members (provided by 6th July) would be appreciated.
2. This flow chart focuses on non-financial assets. (An earlier version of the flow chart was tested on financial assets and several differences found between their measurement in close-to-final IPSAS 41 and measurement indicated by the flow chart.) It is expected to address most, but not necessarily all, measurement situations for non-financial assets. Application of the flow chart to assets covered by four IPSASs indicates that all four would need consequential amendments.
3. This flow chart reflects the Conceptual Framework's approach to selection of measurement bases, and the IPSASB's decision that fair value is applicable to public sector measurement in some circumstances. It takes a broad, strategic approach to asset measurement rather than an overly detailed, complex technical approach. It is the basis for the text on subsequent measurement in the draft Exposure Draft XX, *Measurement*, (ED XX).

DRAFT FLOW CHART—SUBSEQUENT MEASUREMENT



Examples to illustrate flow chart

4. The following types of assets have been used to illustrate this flow chart:

- (a) Inventories (IPSAS 12);
- (b) Property, plant and equipment (IPSAS 17);
- (c) Intangible assets (IPSAS 31); and
- (d) Biological assets and agricultural produce (IPSAS 27).

Inventories (IPSAS 12)

5. *Flow chart.* This flow chart appears to support subsequent measurement for inventories at either fair value or net selling price, since inventories are not held on an on-going basis. The choice of measurement basis depends on whether there is an active, open and orderly market for the inventory assets.

Box 1–Answer “no”.

Box 4–Answer may be either “yes” or “no”.

6. IPSAS 12 presently allows for measurement at cost, with a downwards adjustment to current replacement cost or net realizable value if the value goes below cost. Net realizable value applies except when the inventory is (a) held for distribution at no charge or for a nominal charge, or (b) consumed in production of goods to be distributed at no charge or for a nominal charge. In those situations current replacement cost applies. As a consequence, IPSAS 12 does not fit with the flow chart and the Task Force and IPSASB will need to consider consequential amendments.

Property, Plant and Equipment (IPSAS 17)

7. *Flow chart.* This flow chart supports subsequent measurement for property, plant and equipment at either historical cost, replacement cost (RC) or market value.

Box 1–Answer “yes”.

Box 2–Answer may be either “yes” (i.e. historical cost model) or “no” (revaluation model), which leads to Box 3.

Box 3–Either yes or no, which generates measurement at RC (if the asset is specialized) or market value (if not specialized).

8. IPSAS 17 allows subsequent measurement of property, plant and equipment applying either a cost model or revaluation model. Revaluation is to fair value, which is derived (depending on availability of information) through use of market values, depreciated replacement cost, reproduction cost, restoration cost or a service units approach. As a consequence, IPSAS 17 does not fit with the flow chart and the Task Force and IPSASB will need to consider consequential amendments.

Intangible assets (IPSAS 31)

9. *Flow chart.* This flow chart supports subsequent measurement for intangible assets at either historical cost, RC or market value.

Box 1–Answer “yes”.

Box 2—Answer may be either “yes” (i.e. historical cost model) or “no” (revaluation model), which leads to Box 3.

Box 3—Either yes or no, which generates measurement at RC (if the asset is specialized) or market value (if not specialized).

10. IPSAS 31 allows subsequent measurement of intangible assets applying either a cost model or revaluation model. Fair value must be determined by reference to an active market. The IPSAS notes that it is uncommon for an active market to exist for an intangible asset and lists intangibles assets for which an active market “cannot exist.” The list includes, for example, brands and publishing rights. Intangibles assets must be carried at cost less any accumulated amortization and impairment losses if an active market does not exist. As a consequence, IPSAS 31 does not fit with the flow chart and the Task Force and IPSASB will need to consider consequential amendments.

Agriculture (IPSAS 27)

11. *Flow chart.* For agricultural produce and biological assets this flow chart appears to support subsequent measurement for these assets at either *fair value* or *net selling price*, since, arguably, these assets are held for sale or distribution, and not held on an on-going basis. The choice (between fair value and net selling price) depends on whether there is an active, open and orderly market for the assets.

Box 1—Answer “no”.

Box 4—Answer may be either “yes” or “no”.

12. For biological assets IPSAS 27 requires subsequent measurement at “fair value less costs to sell”, except where fair value cannot be measured reliably in which case measurement is at cost less any accumulated depreciation and impairment losses. For agricultural produce harvested from an entity’s biological assets IPSAS 27 requires measurement at fair value less costs to sell (as at the point of harvest). As a consequence, IPSAS 27 does not fit with the flow chart and the Task Force and IPSASB will need to consider consequential amendments.

Decision required

1. The IPSASB is asked to note that the Task Force plans to do further work on the flow chart (and related text in ED XX, *Measurement*) for the September IPSASB meeting.

2. Exposure Draft Text—Subsequent Measurement of Assets**Question**

1. What are the IPSASB's views on the draft ED text for subsequent measurement of assets?

Detail

1. The draft ED sections for subsequent measurement of assets reflect directions from the IPSASB and Task Force Chairs to the effect that ED text should:
 - (a) Be kept concise;
 - (b) Apply the flow chart in Topic 1 to identify the applicable measurement bases for assets subsequent to initial recognition; and
 - (c) Refer to other IPSASs for depreciation, amortization and impairment.
2. Points made during the IPSASB's December 2017 meeting (relevant to these sections) are:
 - (a) ED XX should articulate measurement principles and address public sector issues, with each subsection kept short (one to two paragraphs). Consequential amendments to IPSASs will be dealt with separately.
 - (b) ED XX's subsequent measurement section will address the relatively straightforward issues raised by the historical cost model as well as the more challenging issues around revaluation.

Decision required

1. The IPSASB is asked to approve the broad direction of ED's section "Subsequent Measurement—Assets," and identify revisions to bring back in September.

3. Fair Value in the Exposure Draft

Questions

1. What are the IPSASB's views on ED XX's coverage of fair value measurement in terms of its:
 - (a) Extent (applying either a high level or detailed approach); and
 - (b) Location within the Standard.
 - (c) Does the IPSASB agree with the revisions proposed to text sourced from IFRS 13, *Fair Value Measurement*, and for inclusion in ED XX?

Detail

1. In March 2018 the IPSASB decided that ED XX should reproduce the content of IFRS 13, *Fair Value Measurement*, to establish the meaning of fair value. The IPSASB directed staff to include all IFRS 13 definitions and other necessary IFRS 13 material in ED XX. The IPSASB had already decided that fair value should have the same meaning in ED XX as in IFRS 13.

Extent of Coverage—High Level or Detailed (i.e. Similar to that in IFRS 13)?

2. Draft ED XX (agenda item 12.3.1) has reproduced most of IFRS 13's coverage, applying a working assumption that the same coverage is needed to address fair value measurement as that deemed necessary by the International Accounting Standards Board (IASB).
3. IFRS 13's detailed coverage is different in style from the rest of ED XX, which takes a high level, principles-based approach. The IPSASB is asked to consider whether a high level approach should be taken, in which case staff and the Task Force would develop brief coverage that conveys the primary principles for measurement of fair value. The detail would be removed and either deleted or placed in application guidance.

Location of Coverage

4. All the text on fair value measurement is in a separate section, after ED XX's "Effective Date" section, to facilitate the IPSASB's review of this text as a single, integrated whole. However, logically the text should be distributed throughout ED XX.
5. Arguably much of the detail could be included in an application guidance appendix in either ED XX, *Measurement*, or in another IPSAS.
6. Other locations for fair value text include, for example:
 - (a) Paragraphs 57–60, which address fair value at initial recognition, could be located within ED XX's section on measurement at initial recognition;
 - (b) Paragraphs 91-99, which addresses disclosures, could be located within ED XX's section on disclosures; and
 - (c) The following paragraphs could be moved into application guidance:
 - (i) Paragraphs 17–26, sections on the transaction, market participants and the price,
 - (ii) Paragraphs 27–33, sections on application to non-financial assets,

- (iii) Paragraphs 61–71, sections on valuation techniques and inputs to valuation techniques, and
- (iv) Paragraphs 72–90, sections on fair value hierarchy.

Revisions to IFRS 13 Text for Inclusion in ED XX

7. In draft ED XX the following types of revisions have been made to the underlying IFRS 13 text:
 - (a) Deletions to remove:
 - (i) References to issues that are not relevant to the public sector (e.g. an entity's measurement of its own equity);
 - (ii) Coverage of disclosures, which the project plan has identified for discussion at a subsequent IPSASB meeting;
 - (iii) References to the IASB and IFRS;
 - (iv) Content needed for a separate Standard, but unnecessary for a section within a Standard;
 - (v) IFRS 13's appendix of defined terms, since these definitions are included in ED XX's list of definitions after the ED's section on scope;
 - (b) Amendments to relate coverage to IPSAS, *Measurement*.
8. There appears to be a significant amount of IFRS 13-sourced text that arguably has limited relevance to the measurement of public sector assets and liabilities, other than financial instruments. IPSASB members' views are requested on other text to exclude from ED XX, for example:
 - (a) Paragraphs 45–46, sections on restrictions preventing the transfer of a liability,
 - (b) Paragraphs 48–56, sections on application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, and
 - (c) Appendix B: Application guidance.

Decisions required

The IPSASB is asked to:

1. Agree that ED XX provide a high level, principles-based coverage of fair value measurement, with detail included as application guidance in an appendix to either:
 - (a) ED XX, *Measurement*, or
 - (b) Another IPSAS.
2. Agree with the revisions already made to IFRS 13-sourced text, as outlined in paragraph 7 above; and
3. Provide views on further IFRS 13-sourced text that should not be included in ED, as indicated in paragraph 8 above.

4. Equivalence Table and Revisions Since March 2018

Question(s)

1. What are the IPSASB's views on the equivalence table?
2. The IPSASB is asked to note revisions to the CP and ED since the March IPSASB meeting.

Detail–Equivalence Table

1. The equivalence table (see agenda paper 12.3.2) reflects directions that staff should prepare an equivalence table that:
 - (a) Has comprehensive coverage of IPSAS measurement-related terms, including IFRS 13 definitions incorporated into IPSAS XX, *Measurement*; and
 - (b) Provides government finance statistics (GFS) and International Valuation Standards (IVS) equivalents for those terms, where available; and
 - (c) Includes coverage that appears to cover a broadly similar idea or a reference to the accounting term, where equivalent terms (defined or described) are unavailable.
2. The equivalence table comprises IPSASB material and material taken from third party sources (GFS and IVS), any changes to which are outside the IPSASB's control. Hence the equivalence table is non-authoritative; but viewed as useful to readers of the ED/IPSAS, because it shows how the IPSASB has considered GFS and IVS terms in the context of its own measurement-related definitions. Because the table can only be regarded as non-authoritative, it is recommended that the table be posted as a resource on the IPSASB website and not incorporated into the ED or CP. Work on refining the equivalence table is ongoing.

Detail–Revisions to CP and ED since March 2018 IPSASB Meeting

3. Revisions made to the CP and ED XX since the IPSASB's March 2018 are shown in agenda paper 12.3.1 for the IPSASB's information.

Revisions to CP Chapters 1-3

4. The first two chapters of the CP have been revised to reflect the IPSASB's March discussion and subsequent directions from IPSASB members. All changes are shown in mark-up. For Chapter 3, on borrowing costs, the mark-up shows revisions made in response to the IPSASB's inter-meeting review of the revised, post-March meeting version.

ED Sections: Objective, Scope, Defined Terms, Initial Measurement, Transaction Costs and Borrowing Costs

5. The draft ED sections have been revised to address the IPSASB's March meeting comments and revisions decided by the IPSASB Chair, with input from the Task Force Chair and IPSASB Technical Director. For the ED's objective and scope sections the wording agreed by the IPSASB in March 2018 was used as the starting point. Then the mark-up shows any subsequent revisions.
6. For other ED sections (definitions, initial measurement, transaction costs and borrowing costs) the mark-up shows revisions identified at the IPSASB's March discussion and any subsequent directions

from the Task Force and IPSASB Chairs. For example, the list of definitions includes defined terms used in IFRS 13, *Fair Value Measurement*, as decided by the IPSASB in March.

Decision required

1. The IPSASB is asked to:
 - (a) Note the on-going development of the equivalence table as non-authoritative material; and
 - (b) Note revisions to the CP's Chapters 1-3 and the ED XX's sections on objective, scope, defined terms, initial measurement, transaction costs and borrowing costs.

5. Education Session on Subsequent Measurement of Liabilities

For Information: Education Session

1. This education session will provide information to support an IPSASB discussion of subsequent measurement of liabilities in individual IPSASs.

Detail

1. The illustrative examples presented for subsequent measurement of liabilities in IPSASs are considered in light of the review approach that the IPSASB approved in December 2017. These examples focus on high level principles rather than detail. IPSASs impacted by an on-going project and those where other considerations (such as symmetry) have been applied to derive measurement requirements (for example, measurement for service concession arrangements and public sector combinations) are not discussed.
2. The IPSASB's discussion is expected to identify issues for development of ED sections on subsequent measurement of liabilities, for approval at the IPSASB's September 2018 meeting.

Review Approach—Approved in December 2017

3. The review approach approved in December lends itself more the measurement of assets than liabilities. The approach applies a rebuttable presumption that existing measurement requirements and references to fair value will need revision for consistency with the Conceptual Framework (CF). Revisions will be necessary if the current measurement approach is only broadly consistent with a measurement basis in the CF. Where an IPSAS permits or requires the use of the revaluation model, a first step will be to determine whether the value is an exit value or an entry value¹. Where an IPSAS refers to fair value:
 - (a) Entry value: If the measurement is an entry value, the IFRS 13 definition will be inappropriate and another measurement basis will be necessary.
 - (b) Exit value: If an IPSAS's reference to fair value represents an exit value, then apply the IFRS 13 fair value definition. (For example, the financial instruments project demonstrated that an IFRS 13 definition for fair value worked in many areas.)
4. Another factor to consider is whether a value should be entity-specific or not.

PowerPoint Presentation—Outline

5. As a prompt for the discussion, staff will provide brief review comments on:
 - IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*
 - IPSAS 39, *Employee Benefits*

¹ An entry value reflects the cost of purchase for assets and, for liabilities, relates to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability. Exit values reflect the economic benefits from sale of an asset and also the amount that will be derived from use of the asset, and, for liabilities, the amount required to fulfill an obligation or the amount required to release the entity from an obligation. (Conceptual Framework Paragraphs 7.8 and 7.9.)

For Information—no decision

1. This topic is provided as an information and discussion session.

Agenda Item

12.3.1

Agenda Item 12.3.1: CONSULTATION PAPER–EXPOSURE DRAFT IN APPENDIX C

**Consultation Paper
January 2019
*Comments due: May 15, 2019***

Public Sector Measurement

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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Executive Summary

The IPSASB initiated the project for which this Consultation Paper (CP) and accompanying Exposure Draft (ED) are intermediate outputs to address a number of issues:

- [include issues here]

More information about the problems addressed and an overview of the CP's content here.

The IPSASB has reached several preliminary views (PVs), and these are summarized below:

- PV 1.
- PV 2
- PV 3

More information.

REQUEST FOR COMMENTS

This Consultation Paper, *Public Sector Measurement*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by May 15 2019.**

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 Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper, including all Preliminary Views and Specific Matters for Comment. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

Preliminary View—[Chapter 3](#) (following paragraph [3.28](#))

All borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons, the other option(s) that you support instead, and your reasons for supporting that other option(s).

Preliminary View 2 (following paragraph X.X)

Include here.

Do you agree with the IPSASB’s Preliminary View 2? If not, please give your reasons.

Preliminary View 3 (following paragraph X.X)

Include here.

Do you agree with the IPSASB’s Preliminary View 3? If not, please give your reasons.

Specific Matter for Comment—[Chapter 2](#) (following paragraph [2.8](#))

Are there any other measurement issues on which the IPSASB should provide application guidance?

If so, please identify the other measurement issues for which you consider that the IPSASB should provide application guidance in IPSAS, *Measurement*.

Specific Matter for Comment—Chapter X (following paragraph X.X)

Include here.

Specific Matter for Comment—Chapter X (following paragraph X.X)

Include here.

PUBLIC SECTOR MEASUREMENT

CONTENTS *(Approved December 2017)*

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Consultation Paper on Public Sector Measurement – Outline

Chapter 1 Introduction

Background to the CP

Measurement issues to address

~~Consistency with~~ Measurement and the Conceptual Framework

IFRS 13, Fair Value Measurement

Clarity of requirements in IPSASs

Scope of coverage

Structure of CP

Chapter 2 Conceptual Framework and Measurement

Selection of measurement bases

Factors to consider when selecting a measurement basis

Application of measurement bases – issues arising in practice (see appendices A and B)

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Chapter 4 Public sector measurement: assets

Measurement on initial recognition

Subsequent measurement

Historical cost

Revaluation model

Depreciation and amortization of assets

Measurement on derecognition

Chapter 5 Public sector measurement: liabilities

Measurement on initial recognition

Subsequent measurement

Historical cost

Revaluation model

Measurement on derecognition

[Chapter 6 Application Guidance for Asset and Liability Measurement]*

[Public sector measurement guidance for cross-cutting issues]

[Guidance on applying IFRS 13]

[Application guidance for particular public sector assets (as amendments to other IPSAS)]

Chapter 7 Disclosures for measurement

Disclosures – based IFRS 13 but extended to address disclosures related to public sector measurement

Appendix A: *Assets: Measurement Bases in each IPSAS*

Appendix B: *Liabilities: Measurement Bases in each IPSAS*

Appendix C: *Draft Exposure Draft Public Sector Measurement*

* Placeholder for discussion of Application Guidance if required

Chapter 1, Introduction

Focus and Structure of this Consultation Paper's Focus

- 1.1. In 2017 the IPSASB decided to develop IPSAS, *Measurement*, by issuing an exposure draft (ED) at the same time as an accompanying CP. The aim of this new approach is to allow the earlier issuance of a draft IPSAS, without consequential amendments, and get feedback from constituents. This CP discusses issues that the IPSASB's identifies during its development of the ED. Therefore, this CP should be read in conjunction with ED, *Measurement*, which is in Appendix C of this document.
- 1.2. This CP addresses three areas. First, it discusses those issues where the IPSASB has reached a preliminary view, and considers that constituents' comments should be considered before integrating this into the ED. Where the IPSASB has reached a firm decision on how to address an issue, the relevant text is included in the ED and discussed instead in the ED's *Basis for Conclusions*.
- 1.3. Second, this CP provides an overview of the impact of the measurement requirements in ED, *Measurement*, on individual IPSASs. It does not provide either extensive detail or, as stated above, a list of consequential amendments to each individual IPSAS. The aim is to keep this CP-ED combination at a high enough level to provide a good basis for constituents' input. There are SMCs in this CP to solicit constituents' views on the ED's impact on measurement in individual IPSASs.
- 1.4. Third, this CP also discusses some general issues related to IPSAS measurement. For example, Chapter 2 considers the general issue of what measurement application guidance should be provided in ED, *Measurement*.

Structure of this Conceptual Paper

- 1.5. This CP considers measurement in the following order:
- Chapter 2 discusses the guidance on measurement in the *Conceptual Framework*;
 - Chapter 3 discusses transaction costs and borrowing costs;
 - Chapter 4 discusses measurement of assets;
 - Chapter 5 discusses measurement of liabilities;
 - Chapter 6 discusses application guidance for measurement of assets and liabilities; and
 - Chapter 7 discusses disclosures for measurement.

The Purpose of Measurement in Public Sector Financial Statements

- 1.1. ~~General Purpose Financial Reports (GPFRs) provide information to users for the purpose of accountability and decision-making. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities that users' need for accountability and decision-making.~~
- 1.2. ~~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

1. ~~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 such 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.~~
2. ~~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 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.~~
3. ~~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

4. ~~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 of GPFs in the public sector, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.~~
5. ~~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.~~

~~6. 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.~~

Background to the Consultation Paper

~~1.6. The IPSASB completed *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) in 2014. The *Conceptual Framework* establishes the concepts that underpin financial reporting, which the IPSASB applies in developing IPSASs. The *Conceptual Framework* does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or RPGs.~~

~~4.3-1.7.~~ After completing the *Conceptual Framework* in 2014, the IPSASB recognized a need to address measurement requirements in IPSAS. In their responses to the IPSASB's 2014 ~~s~~Strategy and ~~w~~Work ~~p~~lan consultation, constituents supported a Public Sector Measurement project.

~~4.4-1.8.~~ The Public Sector Measurement project began in 2017, with the rationale that measurement requirements in IPSASs should be amended to better align them with the *Conceptual Framework*'s measurement concepts. The project's objectives ~~were~~ are to:

- (a) Issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure;
- (b) Provide more detailed guidance on the implementation of replacement cost and cost of fulfillment, and the circumstances under which these measurement bases will be used; and
- (c) Address transaction costs and borrowing costs.

Measurement Issues to Address

~~Consistency with the~~ The *Conceptual Framework* and Measurement

~~1.9.~~ When IPSASs were first developed they used measurement bases developed for private sector financial reporting and adapted them for the public sector. The IPSASB took into account public sector financial reporting needs and the special characteristics of the public sector in Chapter 7 of the *its* *Conceptual Framework*, which ~~coverage of addresses~~ measurement in the financial statements. ~~Financial statement M~~measurement requirements in IPSAS now need to be better aligned with the measurement concepts in the *Conceptual Framework*. IPSAS measurement generally needs to be reviewed against the objective of measurement in the *Conceptual Framework*.

~~4.5-1.10.~~ IPSAS measurement also takes into account the IPSASB's policies on alignment with International Financial Reporting Standards (IFRS) and reduction of differences between IPSAS and government finance statistics (GFS) reporting guidelines¹.

¹ These policies are set out in the IPSASB's *Process for Reviewing and Modifying IASB Documents and Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

IFRS 13, Fair Value Measurement

~~1.11. One objective for this project is to consider the use of fair value in IPSAS. Fair value is a specified measurement basis in many IPSASs. This is inconsistent with the Conceptual Framework, which does not include fair value as a measurement basis, although its definition of “market value” is the same as the current IPSAS definition of “fair value,” which is either an entry value or an exit value.~~

~~4.6-1.12. The International Accounting Standards Board (IASB) issued IFRS 13, Fair Value Measurement, in 2011. IFRS 13 defines fair value as an exit value, and establishes an IFRS 13’s approach to fair value measurement. The definition and approach are inconsistent with different from the Conceptual Framework’s approach to measurement bases the Conceptual Framework, and Fair value in IFRS 13 is also different from the current IPSAS definition of fair value. Because of these differences, the IPSASB decided to apply a rebuttable presumption that IPSAS references to fair value will would need revision for better alignment consistency with the Conceptual Framework, as it developed the draft Standard, accompanying this CP.~~

~~Focus and Structure of this Consultation Paper~~

~~7.1. In 2017 the IPSASB decided to develop IPSAS, Measurement, by issuing an exposure draft (ED) at the same time as an accompanying CP. The aim of this new approach is to allow the earlier issuance of a draft IPSAS, without consequential amendments, and get feedback from constituents. This CP discusses issues that the IPSASB’s identifies during its development of the ED. Therefore, this CP should be read in conjunction with ED, Measurement, which is in Appendix C of this document.~~

~~8.1. This CP considers measurement in the following order:~~

~~Chapter 2 discusses the guidance on measurement in the Conceptual Framework;~~

~~Chapter 3 discusses transaction costs and borrowing costs;~~

~~Chapter 4 discusses measurement of assets;~~

~~Chapter 5 discusses measurement of liabilities;~~

~~Chapter 6 discusses application guidance for measurement of assets and liabilities; and~~

~~Chapter 7 discusses disclosures for measurement.~~

Chapter 2, Conceptual Framework and Measurement

- 2.1. As noted in Chapter 1, the Conceptual Framework discusses measurement in Chapter 7, *Measurement of Assets and Liabilities in the Financial Statements*. Chapter 7 establishes the objective of measurement, which addresses the selection of measurement bases.

Selection of Measurement Bases

- 2.2. The objective of measurement is:

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

- 2.3. The Conceptual Framework identifies the measurement bases from which a selection should be made. Those are:

Measurement Bases for Assets

Historical cost;
Market value;
Replacement cost;
Net selling price; and
Value in use.

Measurement Bases for Liabilities

Historical cost;
Cost of fulfillment;
Market value;
Cost of release; and
Assumption price.

- 2.4. The Conceptual Framework provides guidance on selection, by discussing each measurement basis in terms of:

- (a) The information it provides about the cost of services, operating capacity and financial capacity (i.e. achievement of the objective of measurement); and
- (b) The extent to which the information provided is likely to meet the qualitative characteristics taking into account the constraints.

Factors to Consider when Selecting a Measurement Basis

- 2.5. The Conceptual Framework identifies factors for consideration when selecting a measurement basis. The factors identified include:

- (a) The nature of a measurement basis, and specifically whether it:
 - (i) Provides an entry or exit value;

- (ii) Is observable in a market (or not); and
- (iii) Is entity-specific (or not).

(b) Factors related to the nature and circumstances of the asset/liability, for example, whether:

- (i) Assets were acquired (or liabilities incurred) in a non-exchange transaction.
- (ii) Assets are held to provide services (non-cash-generating assets), to generate a commercial return (cash-generating assets), and/or for trading or sale.
- (iii) Assets are specialized, where they have been created or adapted for a particular purpose. Their specialization may relate to their design, location, specification, size or any combination of these factors. These factors are specific to the service being provided, and as a consequence there may be no commercial use against which the value of the asset can be benchmarked.
- (iv) There are restrictions on what the entity is able to do with the asset/liability.

(c) Whether a market exists for similar assets and liabilities and the type of market, for example it is open, active and orderly.

Application of Measurement Bases—Issues Arising in Practice

2.6. Many different issues arise in practice when applying measurement bases. For example, when applying the historical cost measurement basis to assets, there are issues related to:

- (a) Costs to be capitalized on initial acquisition/ construction of an asset;
- ~~(b) Determination of unit of account (component) for subsequent depreciation or amortization;~~
- ~~(c) Determination of useful life, residual value, and depreciation or amortization method;~~
- ~~(d)~~ Lack of initial cost, with a resulting need to determine a deemed cost, when an asset has been acquired through a non-exchange transaction or is recognized on first time adoption of accruals accounting and information on acquisition cost is missing; and
- ~~(e) Indicators of impairment and measurement when an impairment has occurred; and~~
- ~~(f)~~ Measurement of service potential for non-cash generating assets.

2.7. Where an entity applies a current value measurement basis to an asset or liability, application issues that arise include:

- (a) Frequency of revaluations;
- (b) Purpose of a valuation (for example, when valuing an asset, the purpose could be either to reflect the asset's existing use or its highest and best use);
- (c) Choice of valuation methodology (for example, if a liability will be valued using a discounted cash flow then there is a choice of different methodologies for this type of valuation);
- (d) Appropriate sources of information (inputs) for use in a revaluation (including, for example, sources to determine a discount rate or a market value for similar items);
- (e) Impact of restrictions on valuations (for example, on an asset's use and/or disposal or the entity's ability to transfer a liability).

2.8. The IPSASB proposes to provide application guidance in the Standard on the following topics:

- (a) Meaning of different measurement-related terms.
- (b) Choice of measurement basis.
- (c) How to determine different measurement bases. (For example, deemed cost, replacement cost, market value, fair value, and value in use.)
- (d) Measurement (initial and subsequent) of particular types of assets. (For example, military, heritage, infrastructure, agriculture, landfill, investments in unquoted shares, and non-cash generating assets.)
- (e) Assessment of measurability for recognition. (For example, guidance on the meaning of a “reliable estimate”, when an IPSAS states that this is necessary for asset recognition.)
- (f) Frequency of revaluations.
- (g) Discount rates (their selection and determination).
- (h) How to apply different valuation models. (For example, the appropriateness of inputs in valuation models and understanding whether inputs are observable or unobservable.)
- (i) Restrictions on assets. (For example, guidance on their identification and classification as either entity-specific or asset-specific restrictions.)
- (j) Subsequent measurement. (For example, the relationship between measurement model, depreciation, and impairment.)
- (k) Relationships between IPSAS measurement and measurement in IVS and GFS reporting guidelines.

Specific Matters for Comment—Chapter 2

Are there any other measurement issues on which the IPSASB should provide application guidance?

If so, please identify the other measurement issues for which you consider that the IPSASB should provide application guidance in IPSAS, *Measurement*.

Chapter 3, Borrowing Costs

Capitalization or Expensing Borrowing Costs

- 3.1. IPSAS 5, *Borrowing Costs*, defines borrowing costs as interest and other expenses incurred by an entity in connection with the borrowing of funds. It generally requires the immediate entities to expensing of all borrowing costs. However, it permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the with the exception of costs for a “qualifying asset” during the period between the beginning of acquisition/,_ construction/ or production of a qualifying asset, and active use. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. IPSAS 5 gives entities the option of either expensing or capitalizing borrowing costs in these circumstances.
- 3.2. These bBorrowing costs are may be attributable to acquisition of the asset, but are not part of the asset's purchase price or, in the case of construction or production, the prices of material and labor. They are not a characteristic of the asset being valued. They are entity-specific costs, which depend on the entity's financing choices. Capitalization of borrowing costs results in similar assets being measured at different amounts, because entities have different financing profiles and different ways to finance their asset acquisition and/or construction.
- 3.3. The question of how to account for borrowing costs also applies to subsequent measurement, when an entity revalues assets applying a cost-based estimated such as replacement cost. IPSAS application guidance does not address the issue of whether, and if so, how, borrowing costs should be incorporated into the calculation of a cost-based current value. If borrowing costs must be expensed for measurement on initial recognition then it follows that no estimate of borrowing costs would be included in a cost-based revaluation. Alternatively, if borrowing costs are capitalized then application guidance on changes in actual borrowing costs, compared to those initially capitalized and/or derivation of an estimate of borrowing costs would be helpfulneeded.

Previous IPSASB Considerations: Project 2007–2009

- 3.4. The IPSASB's previous project on the treatment of borrowing costs, from 2007 to 2009, was prompted by the International Accounting Standards Board (IASB)'s decision to revise the equivalent International Financial Reporting Standard (IFRS)² by removing the option to expense borrowing costs in the circumstances set out in paragraph 3.1 above and instead require capitalization.
- 3.5. The IPSASB decided that:
- (a) There are public sector specific reasons to diverge from IFRS in this case, one of which is the common use of centralized borrowing with many entities prohibited from borrowing on their own account;
 - (b) Expensing ef borrowing costs is generally the most appropriate accounting policy; and
 - (c) Capitalization of borrowing costs should be restricted to cases where there is a direct link between the debt instrument and the qualifying asset.

² IAS 23, Borrowing Costs. The IASB decided to require capitalization of borrowing costs in order to converge with the Financial Accounting Standards Board's treatment of borrowing costs. For small and medium sized entities IFRS requires the simpler and less burdensome accounting treatment of expensing these borrowing costs.

3.6. However, after considering responses to an exposure draft³, the IPSASB concluded that there was no clear mandate from respondents to finalize the ED and no clear indication as to the direction that the IPSASB should take⁴ and decided that the borrowing cost issue should be deferred until the Conceptual Framework had been completed. ~~Therefore IPSAS 5 has continued to provide the option to either expense or capitalize borrowing costs, when the conditions described in paragraph 3.1 above apply.~~

Public Sector Borrowing

3.7. The IPSASB considers that there are significant differences between borrowing in the public ~~sector~~ and ~~the~~ private sectors. Borrowing in the public sector is often centralized and borrowing requirements are determined for the economic entity as a whole. For example, a national government often borrows on behalf of all of its subsidiary entities, including government departments, hospitals, schools and entities responsible for construction of buildings and infrastructure. While centralized borrowing also occurs in the private sector, the public sector approach to centralized borrowing, Borrowing which may be for investing, financing or operating activities, is different.

~~3.7-3.8.~~ A feature of fiscal management in the public sector is that governments may budget for deficits, occasionally for extended periods of time, and those deficits are financed by borrowing. Governments ~~set~~ seek to control their aggregate level of borrowing in the context of political and economic factors, such as decisions on the appropriate levels of taxation, or the timing of cash inflows in general. In many jurisdictions outlays on qualifying assets are a relatively minor part of the government's annual outlays, the bulk of which are consumed by expenses, such as the payment of social benefits to individuals and households. ~~The f~~ Funding allocated to specific programs and entities may be derived from a variety of sources, and consequently ~~the resources transferred are often indistinguishable in character.~~ In the public sector it is often difficult to distinguish ~~determine whether the acquisition/construction/production of an asset has been financed~~ ing from through external borrowing and/or from other sources of finance. ~~Thus, there is often no meaningful way to attribute borrowing costs to qualifying assets.~~

~~3.8.~~ A feature of fiscal management in the public sector is that governments sometimes budget for deficits, occasionally for extended periods of time, and these deficits are financed by borrowing. ~~In many jurisdictions outlays on qualifying assets are a relatively minor part of the government's annual outlays, the bulk of which are consumed by expenses, such as the payment of social benefits to individuals and households.~~ This can be distinguished from the for-profit sector in which entities would normally budget for a loss only in unusual circumstances, and certainly not for an extended period. ~~In the public sector it is often difficult to distinguish financing from external borrowing and other sources of finance. There is often no meaningful way to attribute borrowing costs to qualifying assets.~~

~~3.9.~~ Governments and other public sector entities may borrow for public policy purposes, for example they may issue debt securities to provide liquidity in the capital markets. Often these securities form the benchmark security for the bond market and a common basis for pricing other securities.

~~3.10-3.9.~~ However, there are also situations where public sector entities borrow specifically to finance capital projects. For example, local governments such as city and district councils may finance their

³ Exposure draft (ED) 35, *Borrowing Costs*, was issued in September 2008, with comments requested by 7 January, 2009.

⁴ Minutes of the IPSASB's February 2009 meeting.

construction of infrastructure (roads, bridges, etc.) through specific external borrowing. In these situations public sector entities are able to attribute borrowing costs to ~~the a~~ qualifying assets. Similarly an international development bank such as the World Bank or the European Investment Bank may finance part or all of the construction of a particular infrastructure project undertaken by a public sector entity. Public sector entities responsible for infrastructure investments may have a relatively high proportion of their borrowing costs attributable to qualifying assets.

Options for Treatment of Borrowing Costs

~~3.11-3.10.~~ 3.11-3.10. The IPSASB has identified four options for treatment of borrowing costs for a qualifying asset during the period between the start of acquisition/construction/production and active use, as shown in Table 1 below.

Table 1: Treatment of Borrowing Costs: Options

Borrowing costs—<i>acquisition, construction or production of qualifying asset:</i>	Option 1	Option 2	Option 3	Option 4
Directly attributable ► and specifically incurred	Expense or capitalize	Must capitalize	Expense or capitalize	Expense
Directly attributable ► but not specifically incurred	Expense or capitalize	Must capitalize	Expense	Expense
Borrowing costs—<i>other</i>	Expense	Expense	Expense	Expense

~~3.12-3.11.~~ 3.12-3.11. Option 1 is the status quo, and would mean no change to IPSAS 5. This option allows for an entity to choose either to capitalize or expense borrowing costs that are directly attributable to a qualifying asset during its acquisition, construction or production. Direct attribution could involve, for example, a formula to estimate the fraction of borrowing that logically applies to asset construction activities, as opposed to other operations. Option 1 is not converged with IFRS nor is it aligned with GFS reporting guidelines, which require expensing of all borrowing costs.

~~3.13-3.12.~~ 3.13-3.12. Option 2 requires capitalization and removes the choice to expense. Capitalization applies only during acquisition, construction or production of the qualifying asset, and the borrowings costs must be directly attributable. This option is converged with the IFRS accounting treatment in IAS 23. On the one hand it provides better comparability, because the accounting policy choice has been removed and all entities will capitalize borrowing costs when the same circumstances apply. On the other hand, for this option, asset values will be affected by an entity’s financing choices, which is likely to reduce comparability, with similar assets valued at different amounts. Furthermore, this option is not suitable for the majority of transactions, because of the difficulty in distinguishing the financing portion between external borrowing and other sources of finance. This option is not aligned with GFS reporting guidelines, which require expensing of all borrowing costs.

~~3.14-3.13.~~ 3.14-3.13. Option 3 requires that the accounting policy choice for capitalization only apply to those borrowing costs that are *both* directly attributable to, *and specifically incurred* for, acquisition, construction or production of a qualifying asset. A choice remains, although the extent of choice is narrower than is the case under Option 1. The IPSASB developed this option during its 2007-09

project, in order to address concerns that the focus on borrowing costs that are “directly attributable” allows for too much preparer discretion. By requiring a stronger, clearer relationship between the asset and the borrowing costs that are capitalized, preparer discretion is reduced. Option 3 is not converged with IFRS nor is it aligned with GFS reporting guidelines. However Option 3 has the benefit of providing scope to expense borrowing costs when, for example, a national government’s approach to financing means that borrowing costs are not specifically incurred for the qualifying asset, and capitalize borrowing costs when an entity borrows specifically to finance a qualifying asset, as may occur in local government.

~~3.15-3.14.~~ Option 4 requires that all borrowing costs, without exception, be expensed. This option is aligned with GFS reporting guidelines. This option also provides greater comparability than other options, because there is no accounting policy option-choice and entities’ financing choices do not impact on asset values.

Discussion of the Four Options

~~3.16-3.15.~~ This discussion focuses primarily on the Conceptual Framework’s coverage of measurement and the IPSASB’s policies as they apply to this issue. The Conceptual Framework’s objective of measurement addresses the selection of measurement bases rather than their derivation. However the underlying-Conceptual Framework’s concerns that measurement should generate about information that is useful for assessments of operational capacity, cost of services and financial capacity can be applied to the derivation of measurement basesy. In addition, the Conceptual Framework’s discussion of the extent to which each measurement basis is likely to provide information that achieves the qualitative characteristics, while taking into account the constraints, suggests that different options for measurement basis derivation should consider the extent to which the resulting information will achieve the qualitative characteristics, taking into account the constraints.

~~3.17-3.16.~~ The IPSASB has policies to pursue IFRS convergence-alignment and reduce unnecessary differences between IPSAS and Government Finance Statistics-(GFS) reporting guidelines, to the extent appropriate. The descriptions of the four options explain that Option 2 is the only option converged with IFRS, while Option 4 is the only option aligned with GFS reporting guidelines.

Objective of Measurement

~~3.18-3.17.~~ 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 purposes⁵.

~~3.18.~~ Capitalization of borrowing costs increases the amount recognized as an asset. Yet there appears to be no relationship between an asset’s future economic benefits and/or service potential and the extent of borrowing costs incurred. Therefore, capitalization of borrowing costs This-appears to incorrectly convey~~s~~ to users of the financial statements that assets financed through borrowing have more service potential or ability to generate economic benefits compared to similar assets held by an entity that does not use debt to finance their-its asset acquisitions. Capitalization encourages-has the result that users of the financial statements ~~to~~ assess an entity’s operational capacity and financial

⁵ Paragraph 7.2 of the Conceptual Framework.

capacity as higher than would be the case if no capitalization occurred. With respect to the cost of services, capitalization of borrowing costs defers costs to future periods.

- 3.19. An argument in favor of capitalization of borrowing costs applies the principle that historical cost includes all costs which are directly attributable to getting an asset ready for its intended use, and this includes borrowing costs where they meet this criterion. Historical cost is an entity specific measure and normally will not generate asset measures that are comparable between entities. Furthermore capitalization of borrowing costs ensures that expenses are allocated to the reporting period in which they occur, i.e. expensed as the economic benefits and/or service potential of the qualifying asset is consumed. The capitalization accounting policy will, applying this reasoning, better support assessment of the cost of services.
- 3.20. If all borrowing costs are expensed then the interest cost item in the entity's ~~operation~~ statement of financial performance allows users to see a government's total borrowing cost, with no amount "hidden" in assets. Those users of the financial statements that consider total interest costs to be an important indicator of financial performance will likely prefer Option 4, because it provides them with useful information to hold the entity to account and for decision-making purposes. Alternatively, Option 3's approach to capitalizing borrowing costs allows an entity to link costs to the asset for which borrowing was incurred, if the entity applies the accounting policy choice to capitalize borrowing costs that are directly attributable and specifically incurred with respect to qualifying assets, and some argue that this also provides useful information for accountability and decision making. If the amount of interest that has been capitalized is disclosed in the notes to the financial statements then users are still able to calculate the total interest costs for the period.

Public Sector Borrowing and Capitalization of Borrowing Costs

- 3.21. The reasons why for the public sector borrows,ing outlined in paragraphs 3.7-3.9 above, show that for national governments and their subsidiary entities there is usually little linkage between entities' borrowings and the acquisition, construction or production of qualifying assets. For example, a government that has a policy of maintaining CU100 billion in bonds in the market, while not actually needing the cash, will find that, if it were required to capitalize borrowing costs, it would capitalize interest for any qualifying assets acquired, constructed or produced in any years in which bonds are outstanding. While it may be feasible to allocate these borrowings to qualifying assets, the IPSASB is of the view that doing so is unlikely to provide relevant and representationally faithful information or support achievement of financial reporting objectives, by enhancing either accountability or decision-making.
- 3.22. In the public sector, controlling entities may have a large number of controlled entities. Many of these controlled entities are responsible for acquiring, constructing or producing qualifying assets. Although there will be a general policy framework, many controlled entities are likely to may have their own financial management systems, reflecting their own financial reporting needs. Funding for such controlled entities may be by means of appropriation from a central fund without regard to whether such appropriations are financed from taxes, borrowings or other sources. Any accounting system used to track directly attributable borrowing costs and their application to qualifying assets is likely to be complex and resource intensive. The IPSASB is of the view that in these cases the complexity would mean that, the costs incurred in capitalizing borrowing costs would be considerable and likely to exceed the related benefits.

3.23. Option 2, the capitalization of borrowing costs option, is converged with IFRS requirements and therefore avoids the potential problem of different accounting policies within a group of entities. Where one or more controlled entities apply IFRS while the controlling entity applies an IPSASs-based allowance to expense borrowing costs, the controlling entity will need to adjust for this difference in its consolidated financial statements. This introduces preparation costs which would be avoided if the IPSAS treatment for borrowing costs is fully converged with IFRS.

3.23-3.24. As noted in the introduction to this chapter, there are cases where public sector entities borrow specifically to finance the acquisition, construction or production of a qualifying asset, for example, where a municipality issues bonds specifically to finance an infrastructure project. In such cases capitalizing borrowing costs may be appropriate because the costs to capitalize are relatively straightforward to identify. Then the cost-benefit argument shifts and, arguably, towards therefore entities ~~should be~~ permitted to capitalize borrowing costs ~~specifically incurred for the acquisition, construction or production of a qualifying asset~~. This is an argument in favor of Options 1 and 3, both of which allow entities to capitalize borrowing costs where appropriate, while also allowing for non-capitalization when inappropriate, for example when entities are within a national governments with centralized borrowing.

3.24-3.25. However, even in this situation, ~~cost-benefit considerations and~~ questions as to the relevance of the resulting information, argue in favor of allowing capitalization of borrowing costs rather than making it a requirement. The further condition in Option 3, whereby public sector entities only have the option to capitalize where borrowing is incurred specifically to finance ~~the an~~ asset's acquisition, construction or production, reduces the costs involved in tracking and computing those borrowing costs that should be capitalized, while ~~providing more assurance over~~ increasing the representational faithfulness of the resulting information. This argues in favor of Option 3 rather than Option 1. Arguably Option 4, where all borrowing costs are expensed, provides even more support for achievement of the qualitative characteristics, because its clear-cut approach best supports both understandability and representational faithfulness.

Preliminary View—Expense All Borrowing Costs

3.25-3.26. In considering the arguments for and against the four options the IPSASB noted that allowing entities to choose whether to expense or capitalize borrowing costs reduces comparability between entities and within the same entity. Furthermore, where borrowing costs are difficult to attribute, the representational faithfulness of the resulting information may be reduced. If borrowings are limited to funds borrowed specifically for the purpose of acquiring, constructing or producing a particular qualifying asset (Option 3), then this would reduce complexity, with benefits in terms of achievement of the qualitative characteristics and reduced costs. However, comparability issues would remain, because they would arise ~~due to~~ both when an option in IPSAS is permitted and where entities' different financing profiles impacting on the reported value of assets.

3.26-3.27. The IPSASB considers that neither requiring public sector entities to capitalize nor providing an option to capitalize borrowing costs support achievement of the qualitative characteristics. In particular, capitalizing borrowing costs appears likely to diminish the comparability of information in the financial statements. Given the extent to which judgement is needed for Options 1 to 3, the IPSASB does not ~~see~~ consider that these three options would contribute significantly, if any, benefits towards achievement of the objectives of financial reporting ~~provided by capitalization~~. The IPSASB considers that, having regard to the constraints, the option of expensing borrowing costs,

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Option 4, will provide more useful information for users' assessments of entities' operational capacity, financial capacity and cost of services. Option 4 will also align borrowing cost measurement under IPSAS with GFS reporting guidelines.

~~3.27-3.28.~~ Therefore, the IPSASB's preliminary view is that all borrowing costs should be expensed. ~~This provides information that best achieves the qualitative characteristics, taking into account the constraints, while supporting the objectives of financial reporting and considerations implicit in the objective of measurement.~~

Preliminary View—Chapter 3

All borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, the other option that you support instead, and your reasons for supporting that other option.

Chapter 4, Public Sector Measurement: Assets

Measurement on initial recognition

- 4.1. [This section will include a discussion of any preliminary views that the IPSASB reaches on initial measurement of assets.]

Subsequent measurement

- 4.2. [This section will include a discussion of any preliminary views that the IPSASB reaches on initial measurement of assets.]

[Note: The following CP chapters and appendices will come before Appendix C, which begins on the following page, once the IPSASB has discussed these issues and the resulting text has been developed:

Chapter 5, Public Sector Measurement: Liabilities

Chapter 6, Application Guidance for Asset and Liability Measurement

Chapter 7, Disclosures for Measurement

Appendix A, Assets: Measurement Bases in each IPSAS

Appendix B, Liabilities: Measurement Bases in each IPSAS]

APPENDIX C, EXPOSURE DRAFT XX, MEASUREMENT

Exposure Draft XX
January 2019
Comments due: May 15, 2019

*Proposed International Public Sector Accounting
Standard®*

Measurement

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

This Exposure Draft, *Public Sector Measurement*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 15, 2019.**

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 Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose requirements for measurement of assets and liabilities.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

Do you agree with the **[include question here]**?

If not, what changes would you make?

Specific Matter for Comment 2:

Do you agree with the **[include question here]** included in this Exposure Draft?

If not, what changes would you make?

Specific Matter for Comment 3:

Do you agree with the **[include question here]**?

If not, what changes would you make?

EXPOSURE DRAFT XX, MEASUREMENT**CONTENTS** (APPROVED DECEMBER 2017, REVISIONS AS OF MAY 2018)

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~~[Discount rate to use for public sector measurement]*~~

~~[Discounting using negative interest rates]*~~

~~Depreciation and amortization of assets~~

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~~Market value~~

~~Assumption price~~

~~[Discount rate to use for public sector measurement]**~~

~~[Discounting using negative interest rates]**~~

~~Measurement on derecognition—liabilities~~

~~Cost of release~~

~~Disclosures in respect of measurement~~

~~Effective Date~~

~~Section Fair Value Measurement~~

~~Appendix Fair Value Measurement~~

Appendix A: Application guidance

Appendix B: Amendments to other IPSASs

~~Appendix C: Comparison of measurement bases with GFS and with IVSC standards~~

~~Appendix D: IFRS 13 hierarchy~~

Basis for Conclusions

Refer CP, include placeholder

* Market value and DRC can be value-in-use. Consider whether this heading is necessary.

Refer to IPSASs 21 and 26. Repeat their definitions

** Placeholder / indicative position for discount rates material, subject to progress made.

Objective

1. The objective of this [draft] standard is to ~~identify-define~~ measurement bases that assist in reflecting fairly the cost of services, operational capacity, and financial capacity and how to ~~determine-identify approaches measures~~ under those measurement bases to be applied through individual IPSASs to achieve the objectives of financial reporting.

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in measuring items.

Definitions

3. **The following terms are used in this [draft] Standard with the meanings specified:**

Active market 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.

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

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Cost approach is a valuation 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).

Cost incurred on their acquisition is the consideration given to acquire or develop assets, which is the cash or cash equivalents or the value of the other consideration given, at the time of their acquisition or development, from the point at which a recognizable asset to which costs can be ascribed exists.

Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor.

Deemed cost is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.

Economic benefits are cash inflows or a reduction in cash outflows.

Cash inflows (or reduced cash outflows) may be derived from, for example, an asset's use in the production and sale of services; or the direct exchange of an asset for cash or other resources.

Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

Exit price is the price received to sell an asset or paid to transfer a liability.

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 participants at the measurement date. ~~(See IFRS 13, Fair Value Measurement.)~~

~~Wherever the term fair value occurs in this Standard the requirements and guidance in IFRS 13, Fair Value Measurement, shall be applied to measure fair value.~~

Highest and best use 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. a business) within which the asset would be used.

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

Historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

Income approach is valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Inputs are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

- (a) The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and
- (b) The risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

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.

Level 3 inputs are unobservable inputs for the asset or liability.

Market approach is a valuation 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, such as a business.

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, 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.

Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Most advantageous market is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Net selling price is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

Non-performance risk is the risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

~~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.~~ 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.

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).

Principal market is the market with the greatest volume and level of activity for the asset or liability.

Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Replacement cost is the optimized depreciated replacement cost of an asset.

~~Replacement cost is also the most economic cost required for the entity to replace the service potential of an asset. Depreciated replacement cost is a measurement basis in its own right and is likely to be an appropriate current value measurement basis for specialized operational assets.~~

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'.

Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

~~Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets which are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.~~

Transaction costs are the costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:

- (a) They result directly from and are essential to that transaction.
- (b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made. [Note that further discussion of transaction costs and their definition(s) planned for September 2018 IPSASB meeting.]

Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.

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

~~Value in use is an appropriate measurement basis for assets where it is less than the replacement cost of the resource and greater than the net selling price. The operationalization of value in use for non-cash-generating assets involves the use of replacement cost as a surrogate.~~

Measurement Cost on Initial Recognition

How to determine ~~historical cost~~ on initial recognition

4. Assets shall be measured on initial recognition at the cost incurred on their acquisition, except where:
 - (a) Deemed cost shall be used, as set out in paragraph 5 below, because:
 - i. Information on the assets' cost of acquisition is not available; or
 - ii. The assets are acquired at below market terms or in exchange for other non-financial assets.
 - (b) Another IPSAS requires that they be measured at fair value in which case the requirements and guidance for measurement of fair value in [Section, Fair Value Measurement, and its Appendix shall be applied].

5. **The deemed cost shall be the asset's replacement cost except where another IPSAS requires that deemed cost be fair value.**
6. Paragraphs AGXX–AGXX provide additional guidance on measurement of an asset's replacement cost on initial recognition.
7. **Liabilities shall be measured on initial recognition at the consideration received to assume the obligations at the time the liabilities are incurred, except where another IPSAS requires measurement at:**
 - (a) **Cost of fulfillment; or**
 - (b) **Fair value.**

Treatment of transaction costs

8. **Transaction costs shall be included in the initial measurement of an asset except where assets are measured initially at fair value.**
9. **The treatment of transaction costs for assets measured at fair value shall conform to the requirements for fair value measurement in ~~IFRS 13, Fair Value Measurement~~[Section, Fair Value Measurement, and its Appendix].**

Treatment of borrowing costs

10. **Borrowing costs shall be recognized as an expense in the period in which they are incurred.**

Subsequent Measurement–Assets

11. **Where an entity holds assets on an on-going basis the entity shall choose either the historical cost model in paragraphs 13-16 or the revaluation model in paragraph 17-22 as its accounting policy to measure each class of assets after initial recognition.**
12. **Where an entity does not hold assets on an on-going basis the entity shall apply paragraphs 23-26 to measure the assets after initial recognition.**

Historical cost model–Assets held on an ongoing basis

13. **After initial recognition**
 - (a) **A non-financial asset held on an on-going basis and measured on the historical cost model shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.**
 - (b) **A financial asset held on an on-going basis and measured on the historical cost model shall be carried at its amortized cost.**

Amortized Cost

14. **Amortized cost shall be calculated using the effective interest method and subject to an impairment test.**
15. The effective interest rate used to calculate amortized cost is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net

carrying amount of the financial asset. If the asset's expected life cannot be determined reliably, then the contractual life shall be used.

16. Paragraphs AGXX–AGXX provide additional guidance on calculation of amortized cost.

Revaluation model–Assets held on an ongoing basis

17. **After initial recognition an asset held on an on-going basis and measured on the revaluation model shall be carried at its:**
- (a) **Replacement cost, where the asset is a non-financial, specialized asset; or**
 - (b) **Market value, where the asset is non-financial and not specialized.**

Replacement Cost

18. **The replacement cost of an asset shall be established by reference to:**
- (a) **The market purchase price of components used to produce the asset; or**
 - (b) **The indexed price for the same or a similar asset based on a price for a previous period.**
19. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.
20. Paragraphs AGXX–AGXX provide additional guidance on establishment of replacement cost.

Market Value

21. **The market value of an asset shall be established by reference to prices and other relevant information generated by market transactions involving identical or similar assets.**
22. Paragraphs AGXX–AGXX provide additional guidance on establishment of market value.

Assets Not Held on an Ongoing Basis (Held for Sale or Disposal)

23. **After initial recognition an asset not held on an on-going basis shall be measured at:**
- (a) **Fair value, where**
 - (i) **There is an active, open and orderly market for identical or similar assets; or**
 - (ii) **The asset is a financial asset; or**
 - (b) **Net selling price, where there is no active, open and orderly market for identical or similar assets.**

Fair value

24. **Fair value shall be established by application of the requirements and guidance in [Section, *Fair Value Measurement*, and its Appendix].**

Net selling price

25. **Net selling price shall be established by reference to the amount that the entity can obtain from sale of the asset less the entity's estimated costs of sale.**

26. Paragraphs AGXX–AGXX provide additional guidance on establishment of net selling price.

Transaction costs

27. *[Text for transaction costs to be provided in September.]*

Depreciation and amortization

28. **Depreciation recognized on tangible, depreciable assets shall be calculated in accordance with the applicable IPSAS.**
29. **Amortization recognized on intangible assets shall be calculated in accordance with IPSAS 31, *Intangible Assets*.**

Impairment

30. **IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*, shall apply to determine whether an asset has become impaired and account for impairments.**

Subsequent Measurement–Liabilities

Approach to valuation of liabilities

31. **[Include main requirements here.]**
32. [Include further information on main requirements here.]

Cost of fulfilment

33. **[Include main requirements here.]**
34. [Include further information on main requirements here.]

Market value

35. **[Include main requirements here.]**
36. [Include further information on main requirements here.]

Assumption price

37. **[Include main requirements here.]**
38. [Include further information on main requirements here.]

[Discount rate to use for public sector measurement]

39. **[Include main requirements here.]**
40. [Include further information on main requirements here.]

[Discounting using negative interest rates]

41. **[Include main requirements here.]**
42. [Include further information on main requirements here.]

Measurement on derecognition—liabilities

43. **[Include main requirements here.]**
44. [Include further information on main requirements here.]

Cost of release

45. **[Include main requirements here.]**
46. [Include further information on main requirements here.]

Disclosures in respect of measurement

47. **[Include main requirements here.]**
48. [Include further information on main requirements here.]

Effective Date

49. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after MMMM DD, YY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MMMM DD, YY, it shall disclose that fact.**
50. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* 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 the date of adoption of IPSASs.

Section, Fair Value Measurement

[The objective and scope text in IFRS 13 has not been included (paragraphs 1-8). The IFRS 13 definition of fair value (paragraphs 9-10) is in ED XX's defined terms.]

The asset or liability

- 11 **A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. 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.**
- 12 The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants.
- 13 The asset or liability measured at fair value 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 a business).
- 14 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 fair value measurement, except as provided in this IPSAS.

The transaction

- 15 **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.**
- 16 **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.**
- 17 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 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.
- 18 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 valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

- 19 The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and businesses 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 businesses 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.
- 20 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.
- 21 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.

Market participants

- 22 **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.**
- 23 In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify 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

- 24 **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 valuation technique.**
- 25 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 IPSASs. 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.
- 26 Transaction costs do not include *transport costs*. If location is a characteristic of the asset (as might be the case, for example, 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.

Application to non-financial assets

Highest and best use for non-financial assets

- 27 **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.**
- 28 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 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 income 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.
- 29 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.
- 30 To protect its competitive position, 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 that the entity plans to use defensively by preventing others from using it. 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

- 31 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. a business).
 - (i) If the highest and best use of the asset is to use 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.
- 32 The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IPSASs (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.
- 33 Paragraph B3 describes the application of the valuation premise concept for non-financial assets.

Application to liabilities

General principles

- 34 **A fair value measurement assumes that a financial or non-financial liability is transferred to a market participant at the measurement date. The transfer of a liability assumes that a liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.**
- 35 Even when there is no observable market to provide pricing information about the transfer of a liability (e.g. because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (e.g. a corporate bond or a call option on an entity's shares).
- 36 In all cases, an entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability would take place between market participants at the measurement date under current market conditions.

Liabilities and equity instruments held by other parties as assets

- 37 **When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability from the perspective of a market participant that holds the identical item as an asset at the measurement date.**
- 38 In such cases, an entity shall measure the fair value of the liability as follows:
- (a) Using the quoted price in an *active market* for the identical item held by another party as an asset, if that price is available.

- (b) if that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.
 - (c) If the observable prices in (a) and (b) are not available, using another valuation technique, such as:
 - (i) An *income approach* (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs B10 and B11).
 - (ii) A *market approach* (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs B5–B7).
- 39 An entity shall adjust the quoted price of a liability only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:
- (a) The quoted price for the asset relates to a similar (but not identical) liability. For example, the liability may have a particular characteristic (e.g. the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability.
 - (b) The unit of account for the asset is not the same as for the liability. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

Liabilities not held by other parties as assets

- 40 **When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability using a valuation technique from the perspective of a market participant that owes the liability.**
- 41 For example, when applying a present value technique an entity might take into account either of the following:
- (a) The future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs B31–B33).
 - (b) the amount that a market participant would receive to enter into or issue an identical liability, using the assumptions that market participants would use when pricing the identical item (e.g. having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability with the same contractual terms.

Non-performance risk

- 42 **The fair value of a liability reflects the effect of *non-performance risk*. Non-performance risk includes, but may not be limited to, an entity's own credit risk. Non-performance risk is assumed to be the same before and after the transfer of the liability.**

- 43 When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:
- (a) Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability).
 - (b) The terms of credit enhancements related to the liability, if any.
- 44 The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (e.g. a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the liability, the issuer would take into account its own credit standing and not that of the third party guarantor when measuring the fair value of the liability.

Restriction preventing the transfer of a liability

- 45 When measuring the fair value of a liability, an entity shall not include a separate input or an adjustment to other *inputs* relating to the existence of a restriction that prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability is either implicitly or explicitly included in the other inputs to the fair value measurement.
- 46 For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

Financial liability with a demand feature

- 47 The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

- 48 An entity that holds a group of financial assets and financial liabilities is exposed to market risks and to the credit risk of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this IPSAS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

- 49 An entity is permitted to use the exception in paragraph 48 only if the entity does all the following:
- (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;
 - (b) provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in IAS 24 *Related Party Disclosures*; and
 - (c) is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.
- 50 The exception in paragraph 48 does not pertain to financial statement presentation. In some cases the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if an IPSAS does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs 53–56) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.
- 51 An entity shall make an accounting policy decision in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to use the exception in paragraph 48. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs 53–55) and credit adjustments (see paragraph 56), if applicable, consistently from period to period for a particular portfolio.
- 52 The exception in paragraph 48 applies only to financial assets, financial liabilities and other contracts within the scope of IPSAS XX *Financial Instruments*. The references to financial assets and financial liabilities in paragraphs 48–51 and 53–56 should be read as applying to all contracts within the scope of, and accounted for in accordance with, IPSAS XX regardless of whether they meet the definitions of financial assets or financial liabilities in IPSAS XX.

Exposure to market risks

- 53 When using the exception in paragraph 48 to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs 70 and 71).
- 54 When using the exception in paragraph 48, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph 48, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.

- 55 Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (i.e. years 2–5) on a gross basis.

Exposure to the credit risk of a particular counterparty

- 56 When using the exception in paragraph 48 to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (e.g. a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Fair value at initial recognition

- 57 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.
- 58 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).
- 59 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 B4 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.
- 60 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 profit or loss unless that IPSAS specifies otherwise.

Valuation techniques

- 61 **An entity shall use valuation 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.**
- 62 The objective of using a valuation 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 participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the *cost approach* and the income approach. The main aspects of those approaches are summarized in paragraphs B5–B11. An entity shall

use valuation techniques consistent with one or more of those approaches to measure fair value.

- 63 In some cases a single valuation 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 valuation techniques will be appropriate (e.g. that might be the case when valuing a cash-generating unit). If multiple valuation 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.
- 64 If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary (e.g. there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (e.g. the price for a similar asset or liability) at the measurement date.
- 65 Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application (e.g. a change in its weighting when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value 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) Valuation techniques improve; or
 - (e) Market conditions change.
- 66 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with IAS 8. However, the disclosures in IAS 8 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

Inputs to valuation techniques

General principles

- 67 **Valuation techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.**
- 68 Examples of markets in which inputs might be observable for some assets and liabilities (e.g. financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets (see paragraph B34).
- 69 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 (see

paragraphs 11 and 12). 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 13 and 14). 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 80) 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 79.

Inputs based on bid and ask prices

- 70 If an asset or a liability measured at fair value has a bid price and an ask price (e.g. an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (i.e. Level 1, 2 or 3; see paragraphs 72–90). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.
- 71 This IPSAS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Fair value hierarchy

- 72 To increase consistency and comparability in fair value measurements and related disclosures, this section establishes a fair value hierarchy that categorizes into three levels (see paragraphs 76–90) the inputs to valuation techniques used to measure fair value. 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*).
- 73 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 judgement, 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 to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.
- 74 The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques (see paragraph 61). However, the fair value hierarchy prioritizes the inputs to valuation techniques, not the valuation 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.

- 75 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.

Level 1 inputs

- 76 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- 77 A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph 79.
- 78 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.
- 79 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 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 39). 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.

- 80 If an entity holds a position in a single asset or liability (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

- 81 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.
- 82 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.
 - (d) *market-corroborated inputs*.
- 83 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 39); and
 - (c) The volume or level of activity in the markets within which the inputs are observed.
- 84 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.
- 85 Paragraph B35 describes the use of Level 2 inputs for particular assets and liabilities.

Level 3 inputs

- 86 Level 3 inputs are unobservable inputs for the asset or liability.
- 87 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.

- 88 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation 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 B37–B47).
- 89 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.
- 90 Paragraph B36 describes the use of Level 3 inputs for particular assets and liabilities.

[Text for disclosures, in paragraphs 91-95 of IFRS 13, is not included.]

Appendix to Section, Fair Value Measurement: Application Guidance

This appendix is an integral part of the IPSAS. It describes the application of Section, Fair Value Measurement, and has the same authority as the other parts of the IPSAS.

- B1 The judgements applied in different valuation situations may be different. This appendix describes the judgements that might apply when an entity measures fair value in different valuation situations.

The fair value measurement approach

- B2 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.
 - (d) The valuation 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.

Valuation premise for non-financial assets (paragraphs 31–33)

- B3 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. a business), the effect of the valuation premise depends on the circumstances. For 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 a business that market participants would continue to operate. In that case, the transaction would involve valuing the business in its entirety. The use of the assets as a group in an ongoing business 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 valuation 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 valuation 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.
- (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 (paragraphs 57–60)

- B4 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 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 business 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.

Valuation techniques (paragraphs 61–66)

Market approach

- B5 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, such as a business.
- B6 For example, valuation 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 judgement, considering qualitative and quantitative factors specific to the measurement.
- B7 Valuation 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 rather relying on the securities' relationship to other benchmark quoted securities.

Cost approach

- B8 The 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).
- B9 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.

Income approach

- B10 The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.
- B11 Those valuation techniques include, for example, the following:
- (a) Present value techniques (see paragraphs B12–B30);
 - (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.

Present value techniques

B12 Paragraphs B13–B30 describe the use of present value 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.

The components of a present value measurement

B13 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 fair value 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.

General principles

B14 Present value techniques differ in how they capture the elements in paragraph B13. However, all the following general principles govern the application of any present value 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

- B15 A fair value 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.
- B16 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.
- B17 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 B18–B22) 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 B25) uses risk-adjusted expected cash flows and a risk-free rate.
 - (c) Method 2 of the expected present value technique (see paragraph B26) 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.

Discount rate adjustment technique

- B18 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).

- B19 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 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).
- B20 To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800¹ 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).
- B21 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 fair 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 same, the two-year market rate of return would be further adjusted for that effect.
- B22 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.

¹ In this IFRS monetary amounts are denominated in 'currency units (CU)'.

Expected present value technique

B23 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).

B24 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.)

B25 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 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.

B26 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.

B27 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.

Possible cash flows	Probability	Probability-weighted cash flows
CU500	15%	CU75
CU800	60%	CU480
CU900	25%	CU225
Expected cash flows		CU780

- B28 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 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.
- B29 In theory, the present value (i.e. the fair value) of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:
- 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 ($CU780 - [CU780 \times (1.05/1.08)]$), 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 ($CU758/1.05$).
 - 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 (i.e. the fair value) of the asset is CU722 ($CU780/1.08$).
- B30 When using an expected present value technique to measure fair value, 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 judgements applied.

Applying present value techniques to liabilities not held by other parties as assets (paragraphs 40 and 41)

- B31 When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (e.g. a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include market participants' expectations about the

costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for the following:

- (a) Undertaking the activity (i.e. the value of fulfilling the obligation; e.g. by using resources that could be used for other activities); and
- (b) assuming the risk associated with the obligation (i.e. a risk premium that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph B33).

B32 For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases the components of the return that market participants would require will be indistinguishable from one another (e.g. when using the price a third party contractor would charge on a fixed fee basis). In other cases an entity needs to estimate those components separately (e.g. when using the price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

B33 An entity can include a risk premium in the fair value measurement of a liability that is not held by another party as an asset in one of the following ways:

- (a) By adjusting the cash flows (i.e. as an increase in the amount of cash outflows); or
- (b) By adjusting the rate used to discount the future cash flows to their present values (i.e. as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

Inputs to valuation techniques (paragraphs 67–71)

B34 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.

Fair value hierarchy (paragraphs 72–90)

Level 2 inputs (paragraphs 81–85)

B35 Examples of Level 2 inputs for particular assets and liabilities include the following:

- (a) *Receive-fixed, pay-variable interest rate swap based on the London Interbank Offered Rate (LIBOR) swap rate.* A Level 2 input would be the LIBOR swap rate if that rate is observable at commonly quoted intervals for substantially the full term of the swap.
- (b) *Receive-fixed, pay-variable interest rate swap based on a yield curve denominated in a foreign currency.* A Level 2 input would be the swap rate based on a yield curve denominated in a foreign currency that is observable at commonly quoted intervals for substantially the full term of the swap. That would be the case if the term of the swap is 10 years and that rate is observable at commonly quoted intervals for 9 years, provided that any reasonable extrapolation of the yield curve for year 10 would not be significant to the fair value measurement of the swap in its entirety.
- (c) *Receive-fixed, pay-variable interest rate swap based on a specific bank's prime rate.* A Level 2 input would be the bank's prime rate derived through extrapolation if the extrapolated values are corroborated by observable market data, for example, by correlation with an interest rate that is observable over substantially the full term of the swap.
- (d) *Three-year option on exchange-traded shares.* A Level 2 input would be the implied volatility for the shares derived through extrapolation to year 3 if both of the following conditions exist:
- (i) Prices for one-year and two-year options on the shares are observable.
- (ii) The extrapolated implied volatility of a three-year option is corroborated by observable market data for substantially the full term of the option.

In that case the implied volatility could be derived by extrapolating from the implied volatility of the one-year and two-year options on the shares and corroborated by the implied volatility for three-year options on comparable entities' shares, provided that correlation with the one-year and two-year implied volatilities is established.

- (e) *Licensing arrangement.* For a licensing arrangement that is acquired in a business 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.

- (f) *Finished goods inventory at a retail outlet.* For finished goods inventory that is acquired in a business 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.
- (g) *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.
- (h) *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) businesses, taking into account operational, market, financial and non-financial factors.

Level 3 inputs (paragraphs 86–90)

B36 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 directly observable and cannot otherwise be corroborated by observable market data.
- (d) *Decommissioning liability assumed in a business 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 fulfil 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 flows or profit or loss) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

Measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased

B37 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.
- (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).

B38 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).

- B39 This IPSAS does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs 61–66 and B5–B11 for a discussion of the use of valuation techniques when measuring fair value. Regardless of the valuation 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 B17). 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.
- B40 If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation 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 valuation 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.
- B41 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.
- B42 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 judgement. An entity's intention to hold the asset or to settle or otherwise fulfil the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

Identifying transactions that are not orderly

- B43 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.

B44 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 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

B45 This IPSAS 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 IPSAS.

B46 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 valuation 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.

- B47 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.

Appendix A

Application Guidance²

This Appendix is an integral part of [draft] IPSAS [X] (ED XX)

Scope (see paragraphs x-x)

This [draft] Standard is applied in [guidance on application].

Similarly, this [draft] Standard does not apply to [guidance on application].

This [draft] Standard does not apply to [guidance on application].

Definitions (see paragraph x)

Guidance on the Definition of [term]

[guidance on term]

Guidance on the Definition of [term]

[guidance on term]

Subheading (see paragraphs x-x)

[Include guidance here.]

² The road map for this project has Application Guidance developed after the measurement principles have been approved.

Appendix B

Amendments to Other IPSAS

Amendments to [name of standard]

Paragraphs [list numbers] are amended, paragraphs [list numbers] are added and paragraphs [list numbers] are deleted. New text is underlined and deleted text is struck through.

Heading

1. **Text**
 - (a) ~~These~~ within the scope of;

Appendix C

Comparison of measurement bases with GFS and with IVSC standards

Comparison with GFS

Text here to provide comparison.

Comparison with GFS

Text here to provide comparison.

Appendix D

IFRS 13 hierarchy

Heading 1

Relevant text.

Heading 2

Relevant text.

Etc.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED XX)

Introduction

The purpose of measurement in public sector financial statements

- BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities 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

- 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.
- BC3. Another common feature of public sector assets is that they have restrictions on their use, which need to be taken into account when measurement aims to derive a value that reflects existing use. Measurement issues arise even where there are no restrictions and the aim is to reflect an asset's highest and best use.
- 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 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.
- 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

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.

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.

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. 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.

The measurement bases are historical cost, market value, replacement cost, net selling price, and value in use, for assets, and historical cost, cost of fulfillment, market value, cost of release, and assumption price, for liabilities.

Fair Value in IPSAS and IFRS 13, Fair Value Measurement

BC9. Fair value is a specified measurement basis in many IPSASs. The Conceptual Framework does not include fair value as a measurement basis, although its definition of "market value" is the same as the current IPSAS definition of "fair value," which is either an entry value or an exit value.

BC10. The IPSASB decided not to include fair value in the Conceptual Framework because:

(a) Fair value is similar to market value and the inclusion of both measurement bases could be confusing to users of financial statements; and

(b) The IFRS 13, *Fair Value Measurement*, approach to fair value (see below) raises the following issues:

(i) In the public sector many assets are specialized and differences in entry and exit prices are therefore significant. Where an asset will provide future services or economic benefits with a greater value than the asset's exit price, a measure reflecting exit values is not the most relevant basis.

- (ii) Fair value in IFRS 13 is, in the IPSASB's view, a model to represent a specific measurement outcome rather than a measurement basis.
- (iii) In the Conceptual Framework replacement cost is a measurement basis in its own right, rather than a valuation technique to determine fair value.
- (iv) The relevance of fair value in the public sector is likely to be primarily limited to providing information on financial capacity, rather than operating capacity and the cost of services.

BC11. The International Accounting Standards Board (IASB) issued IFRS 13, *Fair Value Measurement*, in 2011. IFRS 13 defines fair value as an exit value and establishes an approach to fair value measurement involving a hierarchy of inputs and use of measures derived from information about market values, costs and income. When the IPSASB decided against including fair value in the Conceptual Framework it noted, nonetheless, that there could be further work carried out at standards level to explain how the measurement bases in the Conceptual Framework align with IFRS 13's approach to fair value.

BC12. During development of the draft Standard accompanying this CP, the IPSASB decided:

- (a) To apply a rebuttable presumption that IPSAS references to fair value would need revision for better alignment with the Conceptual Framework;
- (b) There would be scope to use fair value for some types of assets and liabilities and in some situations; and
- (c) Where fair value measurement is applied, the meaning of fair value should be consistent with the meaning in IFRS 13.

Objective (paragraph 1)

BC13. ED XX's objective explains that it focuses on the identification and definition of appropriate measurement bases and their derivation. It does not establish requirements for where particular measurement bases should be used in IPSASs. 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.

Scope and definitions (paragraphs 2–3)

BC14. ED XX's scope conveys the IPSASB's view that the Standard should provide comprehensive coverage of measurement for the financial statements.

BC15. The IPSASB considers that this Standard should be a one-stop IPSAS for measurement in the financial statements. The set of defined terms in ED XX reflect that view. They cover all measurement-related terms in other IPSASs. The defined terms include the Conceptual Framework's definitions for measurement bases and defined terms in IFRS 13, *Fair Value Measurement*. This supports alignment with the Conceptual Framework and a consistent meaning for fair value across IPSAS and IFRS. The IPSASB considered measurement-related terms used in IVS and GFS reporting guidelines to understand whether there was scope to improve the clarity of IPSAS terms and/or align with these other sources of measurement guidance (including by adding to the measurement-related definitions in IPSAS).

Cost on initial recognition (paragraph 4–10)

BC16. The Conceptual Framework discussion of selection of measurement bases applies equally to measurement of assets on initial recognition and subsequently. ED XX proposes that assets be measured at cost on initial recognition. This reflects the IPSASB’s view that the cost of acquiring an asset generally provides useful information for users’ assessments of operational capacity, cost of services and financial capacity, taking into account the qualitative characteristics and constraints.

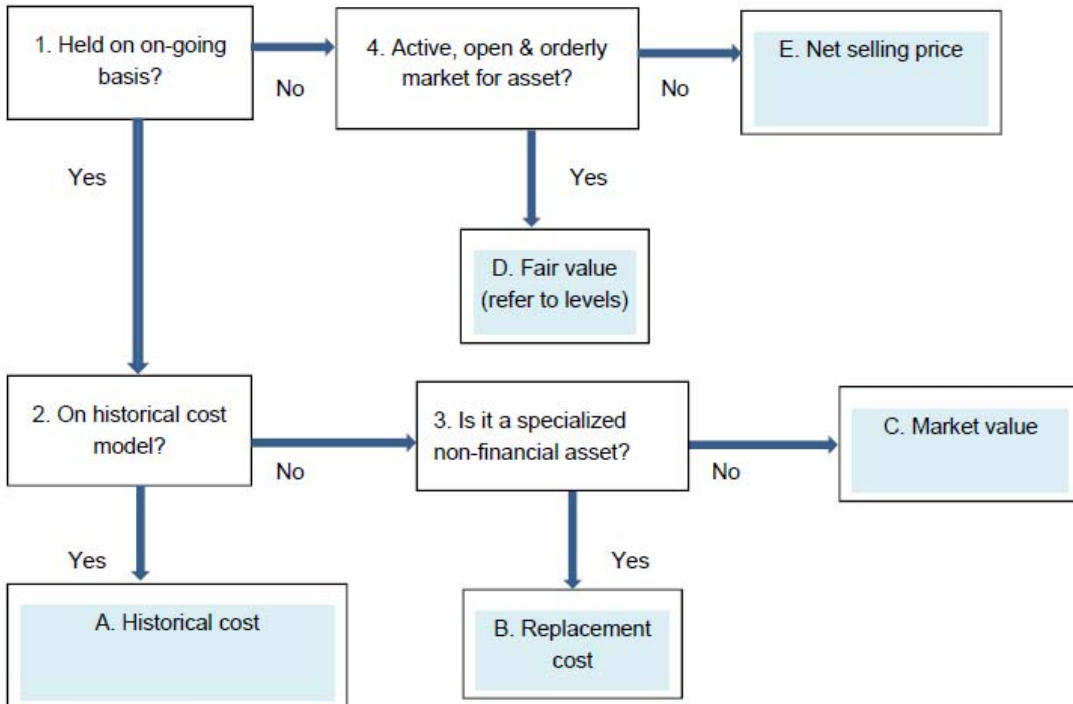
BC17. In some situations and for particular types of assets acquisition costs are either unavailable or inappropriate to achieve the objective of measurement. Therefore the IPSASB considers that ED XX should allow for the following three exceptions to its requirement that assets be measured at cost on initial recognition:

- (a) Deemed cost applies when assets’ cost of acquisition is not available or assets are acquired at below market terms or in exchange for other non-financial assets;
- (b) Fair value applies when another IPSAS requires that assets be measured at fair value; and
- (c) Measurement requirements in another IPSAS apply when the IPSASB has reviewed the particular measurement needs of the assets that fall within the scope of another IPSAS and formed a view that those measurement requirements are more appropriate.

Subsequent Measurement—Assets (paragraphs 11–30)

BC18. For selection of measurement bases subsequent to initial recognition the IPSASB developed the following flow chart for non-financial assets. This flow chart applies the Conceptual Framework’s discussion of measurement bases, while allowing for the IPSASB’s decision that fair value may be applicable to public sector measurement in some circumstances. Flow Chart 2, *Measurement of Financial Assets*, applies to measurement of financial assets³.

DRAFT FLOW CHART—SUBSEQUENT MEASUREMENT



BC19. This flow chart takes a broad, strategic approach to asset measurement rather than an overly detailed, technical approach. It is the basis for the text on subsequent measurement in draft ED XX.

Non-Financial Assets held on an on-going basis: Historical cost and revaluation model

BC20. Where non-financial assets are held on an on-going basis ED XX proposes that entities can choose to apply either the historical cost model or revaluation model.

BC21. If the revaluation model is chosen and assets are held on an on-going basis, ED XX proposes that generally revaluation should be to either replacement cost or market value for non-financial assets. Replacement cost applies to specialized non-financial assets. Non-specialized non-financial assets held on an on-going basis are revalued to market value.

Non-Financial Assets not held on an on-going basis: Fair value or net selling price

BC22. Where non-financial assets are not held on an on-going basis ED XX proposes that generally their subsequent measurement should be at either fair value or net selling price. Fair value is applicable when there is an active, open and orderly market for the assets. Net selling price applies where there is no active, open and orderly market for the assets.

[Insert Flowchart 2 here.]

Subsequent Measurement of Financial Assets

BC23. Applying the approach in Flowchart 2, financial assets will be measured, subsequent to initial recognition, as follows: [include key parts of IPSAS 41 measurement here].

Depreciation and amortization

BC24. Depreciation is a charge for the consumption of an asset over its useful life. ED XX 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.

BC25. 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. ED XX 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.

- BC26. 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 fair value model subsequent to initial recognition. IPSAS 31 does not permit amortization of an asset that is classified as held for sale.

Impairment

- BC27. Impairment is the loss of utility embodied in an asset to the entity controlling it. Such a loss is in the form of a diminution of economic benefits or service potential, over and above, the systematic recognition of the loss of an asset's economic benefits or service potential through depreciation or amortization.
- BC28. Causes of impairment include, but are not limited to, obsolescence, change of use and physical damage. ED XX includes defined terms relevant to assessments of impairment including, for example, a definition for value-in-use. However, it does not include a detailed discussion of impairment. ED XX directs the user to the requirements and guidance on impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

[Further text will be added after the June 2018 meeting, to reflect the IPSASB's discussion of subsequent measurement issues and its consideration of draft ED XX sections.]

Measurement on derecognition (paragraphs X–X)

[Further text in the Basis for Conclusions will be based on the IPSASB's discussion of issues as it reviews the draft CP and ED XX.]

Disclosures in respect of measurement (paragraphs X–X)

[Text in the Basis for Conclusions will be based on the CP's discussion of issues.]

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Agenda Item 12.3.2: Equivalence Table

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>active market</i> (IFRS 13, Appendix A): 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.</p> <p><i>active market</i> (IPSAS 21 Para. 14): An active market is a market in which all the following conditions exist: (a) The items traded within the market are homogeneous; (b) Willing buyers and sellers can normally be found at any time; and (c) Prices are available to the public.</p>	<p>GFSM 2014 refers³ to active markets. (e.g. para. 1.29</p> <p>“While current market prices are readily available for assets and liabilities that are traded in active markets, valuation according to market-value equivalents is used for valuing assets and liabilities that are not traded in markets, or are traded only infrequently.”</p>	<p>References in IVS 2017. For example, IVS 105, para. 10.8 states that: 10.8. Although no one approach or method is applicable in all circumstances, price information from an active market is generally considered to be the strongest evidence of value. Some bases of value may prohibit a valuer from making subjective adjustments to price information from an active market. Price information from an inactive market may still be good evidence of value, but subjective adjustments may be needed.</p>

² The ED XX terms included here are those submitted reviewed by the IPSASB in March 2018 meeting. They also include terms brought across from IFRS 13, *Fair Value Measurement*, as per the IPSASB’s March 2018 direction.

³ To compile this table staff searched for the same and similar meaning defined terms, glossary terms and descriptions of terms in GFSM 2014, SNA and IVS 2017. Where the table only mentions “references” this signifies that definitions, descriptions and glossary references for the same or similar terms were not found.

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>amortization</i> (IPSAS 31 Para. 16): Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life.</p>	<p>See “consumption” etc. beside “depreciation” in this table.</p>	<p>References IVS 2017. For example, IVS 105, para. 50.8; includes the sentence: “For example, accounting non-cash expenses, such as depreciation and amortisation, should be added back, and expected cash outflows relating to capital expenditures or to changes in working capital should be deducted in calculating cash flow.”</p>
<p><i>amortized cost of a financial asset or financial liability</i> (IPSAS 29 Para. 10): Amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.</p>	<p>GFSM 2014 refers to “amortized values” e.g. in para. 3.115 “Market values, fair values, and nominal values should be distinguished from such notions as amortized values, face values, book values, and historic cost.”</p>	<p>No reference in IVS 2017</p>
<p><i>assumption price</i> (CF, para 7.87 to 7.89): Assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.</p>	<p>No references.</p>	<p>No reference in IVS 2017</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>borrowing costs</i> (IPSAS 5 Para. 5): Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.</p>	<p>No references to borrowing cost, financing cost or interest cost. GFSM 2014 refers to “interest” and interest “expense”, in (for e.g.) para. 6.63, “Interest is payable by units that incur liabilities by borrowing funds from another unit. Interest is the expense that the debtor unit incurs for the use of the principal outstanding, which represents the economic value that has been provided by the creditor. Interest may be payable in various ways and may not always explicitly be described as interest (see paragraph 6.71). E.g. for interest expense in 3.143 “Similarly, interest can be presented on a gross basis as interest revenue and interest expense, respectively, while it is feasible to calculate the net interest.”</p>	<p>Reference to “financing costs” in para. 70.12, IVS105: “...financing costs, if included, <i>may</i> already reflect <i>participants’</i> required return on capital deployed, so <i>valuers should</i> be cautious when including both financing costs and profit margins.”</p>
<p><i>carrying amount</i>: Carrying amount (of an intangible asset): The amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses. [IPSAS 31 para. 16] Carrying amount (of investment property): The amount at which an asset is recognized in the statement of financial position. [IPSAS 16 para. 7] Carrying amount (of property, plant, and equipment) The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses. [IPSAS 17 para. 13] Carrying amount of a liability The amount at which a liability is recognized in the statement of financial position. [IPSAS 10 para. 7] Carrying amount of an asset: The amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon. [IPSAS 10.7]</p>	<p>book value (GFSM 2014 glossary, 3.115) “Book value generally refers to the value recorded in the entities’ records.”</p>	<p>References in IVS 2017. See, for example, para. 130.3, IVS 200, “In circumstances where the value of debt <i>may</i> differ from its book value, <i>valuers should</i> either value the debt directly or use a method...”</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<i>cash-generating assets</i> (IPSAS 21, para. 14): Cash-generating assets are assets held with the primary objective of generating a commercial return.	No references.	IVS 2017 refers to “income-generating ability.” See, for example, para. 60.2, IVS 400, “For some real property interests, the income-generating ability of the property is closely tied to a particular use or business/trading activity...” No definition or description.
<i>cash-generating unit</i> (IPSAS 26, para. 13): A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.	No references.	No reference to income-generating units or to unit per se.
<i>closing rate</i> (IPSAS 4, para. 10): Closing rate is the spot exchange rate at the reporting date.	GFSM 2014 refers to spot rates, e.g. para. 7.136 has “The value of foreign currency is converted to the domestic currency at the exchange rate valid on the date to which the balance sheet relates. The rate used should be the midpoint between the buying and selling spot rates for currency transactions.”	No reference to closing rate. Para. 50.7, IVS 105, refers to spot rate without description or definition.
<i>consideration received to assume the obligations</i> (CF, para 7.70): Consideration received to assume the obligations is the cash or cash equivalents, or the value of the other consideration received at the time the liabilities are incurred.	No references.	No reference in IVS 2017.
<i>cost</i> (IPSAS 16, para. 7): The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.	References to “cost” are frequent. E.g. para. 7.104 states that “Goodwill and marketing assets are typically valued at their initial acquisition costs minus allowances for amortization (see paragraph 10.55).”	See “cost approach” in next row.

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>cost approach</i> (IFRS 13, Appendix A): A valuation 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).</p>	<p>GFSM 2014 Glossary term— “Written-down replacement cost” is in the “the current acquisition price of an equivalent new asset minus the accumulated consumption of fixed capital, amortization, or depletion.”</p>	<p><i>Cost approach</i> (IVS 2017, IVS 105, 60.1 The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence. See also cost approach method (IVS 2017, IVS 105, 70.1)</p>
<p><i>cost incurred on their acquisition</i> (CF, para 7.13-7.14): Cost incurred on their acquisition is the consideration given to acquire or develop assets, which is the cash or cash equivalents or the value of the other consideration given, at the time of their acquisition or development.</p>	<p>GFSM 2014 glossary refers to “cost at the time of acquisition” in its description of historic cost: “Historic cost in its strict sense, reflects the cost at the time of acquisition, but sometimes it may also reflect occasional revaluations”</p>	<p>IVS 300, para. 70.2 refers to “An entity’s actual costs incurred in the acquisition or construction of an asset may be appropriate for use as the replacement cost of an asset under certain circumstances.”</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>cost of fulfilment</i> (CF, para 7.74): Cost of fulfilment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.</p>	<p>GFSM 2014 refers to settlement payments, e.g. para. 6.63 states that “On the other hand, net settlement payments under a swap or forward rate agreement contract (possibly described as “interest” in the contract) are not considered as interest and are to be recorded as transactions in financial derivatives (see paragraphs 6.79 and 9.71).”</p>	<p>Similar idea to “cost approach”, as described in IVS 2017, IVS 105, 60.1</p>
<p><i>cost of release</i> (CF, para 7.82 to 7.84): Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Where there is more than one way of securing release from the liability, the cost of release is that of the lowest amount. If transfer of a liability is not practically possible cost of release is the amount that the creditor will accept in settlement of its claim.</p>	<p>GFSM 2014 refers to settlement payments, as noted under “cost of fulfilment.”</p>	<p>Similar idea to “cost approach”, as described in IVS 2017, IVS 105, 60.1</p>
<p><i>costs of disposal</i> (IPSAS 21, para. 14): Costs of disposal are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.</p>	<p>GFSM 2014 refers to “Cost of ownership transfer on the disposal of an asset” in, e.g., para 6.60.</p>	<p>Reference to “transaction costs” in para 210.1 includes the phrase: “...the seller’s costs of sale....”</p>
<p><i>costs to sell</i> (IPSAS 27, para. 9): Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.</p>	<p>GFSM 2014 refers to “Cost of ownership transfer on the disposal of an asset” in, e.g., para 6.60.</p>	<p>Reference to “transaction costs” in para 210.1, IVS 104, includes the phrase: “...the seller’s costs of sale....”</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<i>credit risk</i> (IPSAS 30, para. 8): Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	GFSM 2014 refers to credit risk without definition or description, e.g. para. A3.61 has “Synthetic securitization without a securitization unit, which is schemes involving the transfer of credit risk only (but not the transfer of assets), through a securitization unit.”	Credit risk adjustments for financial instruments are discussed in para. 100.1 of IVS 500.
<i>currency risk</i> (IPSAS 30, para. 8): Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	No references.	Para. 50.5, IVS 105, states that “The choice of currency used <i>may</i> have an impact on assumptions related to inflation and risk.”
<i>current replacement cost</i> (IPSAS 12, para. 9): Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.	GFSM 2014 (para. 3.115) refers to “written-down replacement cost” which is the current acquisition price of an equivalent new asset minus the accumulated consumption of fixed capital, amortization, or depletion.” There are also references to “replacement cost”, e.g. in para. 6.54, “Consumption of fixed capital is therefore based on the current market value or replacement cost of the asset.”	IVS 2017, IVS 105, 70.2-70.5 describes the replacement cost method. “Generally, replacement cost is the cost that is relevant to determining the price that a participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset.”
<i>deemed cost</i> (IPSAS 33, para. 9): An amount used as a surrogate for acquisition cost or depreciated cost at a given date.	No references.	No reference in IVS 2017
<i>depreciable amount</i> (IPSAS 17, para. 13): The cost of an asset, or other amount substituted for cost, less its residual value.	No references.	No reference in IVS 2017

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>depreciation</i> (IPSAS 17 para. 13): The systematic allocation of the depreciable amount of an asset over its useful life. 17.13</p>	<p><u>consumption of fixed capital</u> (GFSM 2014 glossary, 6.53; SNA 2008, 6.240, 10.25)</p> <p>Consumption of fixed capital is the decline, during the course of the reporting period, in the current value of the stock of fixed assets owned and used by a government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage. (Consumption also defined for goods and services. See SNA 2008, 9.39.)</p>	<p><u>Depreciation</u> (IVS 2017, IVS 105, 80.1) In the context of the cost approach, “depreciation” refers to adjustments made to the estimated cost of creating an asset of equal utility to reflect the impact on value of any obsolescence affecting the subject asset. This meaning is different from the use of the word in financial reporting or tax law where it generally refers to a method for systematically expensing capital expenditure over time.</p> <p><u>obsolescence</u> (cost approach and depreciation) (IVS 2017, IVS 105, 80.2.) Depreciation adjustments are normally considered for the following types of obsolescence, which may be further divided into subcategories when making adjustments: (a) Physical obsolescence: (b) Functional obsolescence:....(c) External or economic obsolescence...</p>
<p><i>derecognition</i> (IPSAS 29, para. 10): Derecognition is the removal of a previously recognized financial asset or financial liability from an entity’s statement of financial position.</p>	<p>No references.</p>	<p>No reference in IVS 2017</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>economic benefits</i> (CF, para 5.10): Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:</p> <ul style="list-style-type: none"> • An asset's use in the production and sale of services; or • The direct exchange of an asset for cash or other resources. 	<p>There are references to economic value and economic flows, e.g. para. 3.4 states that "Economic flows reflect the creation, transformation, exchange, transfer, or extinction of economic value; they involve changes in the volume, composition, or value of a unit's assets, liabilities, and net worth. A flow can be a single event, such as the purchase of goods, or the cumulative value of a set of events occurring during a reporting period, such as the continuous accrual of interest expense on a government bond."</p>	<p>The term "utility" is similar. No definition or description, but many references, for example para. 70.5, IVS 105: "The replacement cost is generally that of a modern equivalent asset, which is one that provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques."</p>
<p><i>economic life</i> (IPSAS 13, para. 8): Economic life is either: (a) The period over which an asset is expected to yield economic benefits or service potential to one or more users; or (b) The number of production or similar units expected to be obtained from the asset by one or more users.</p>	<p>There are references to the period of time over which an asset is used, e.g. para. 3.42 states "An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the resource over a period of time."</p>	<p>IVS 2017 refers to the life of the asset in, for example, para. 50.9 IVS 105. No description.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>effective interest method</i> (IPSAS 29, para. 10): Effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest revenue or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IPSAS 9, <i>Revenue from Exchange Transactions</i>), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).</p>	No references.	No reference in IVS 2017
<p><i>entity-specific measures</i> (CF, para 7.11): Entity-specific measures reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement of a liability by an entity.</p>	No references.	IVS 2017 refers to “entity-specific factors” in IVS 2017, IVS 104, 180.1 (See also 180.2 – 180.3.)
<p><i>entity-specific value</i> (IPSAS 17, para. 13): An entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.</p>	No references.	IVS defines “entity-specific factors” in IVS 2017, IVS 104, 180.1 (See also 180.2 – 180.3.)
<p><i>entry price</i> (IFRS 13, Appendix A): The price paid to acquire an asset or received to assume a liability in an exchange transaction.</p>	No references.	IVS 2017 description of cost approach and market value use similar ideas.
<p><i>entry value</i> (CF, para 7.8 to 7.9): An entry value reflects the cost of purchase for assets and, for liabilities, relates to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability.</p>	“Acquisition value” is used in para. 7.78; “In principle, current market prices should be available for most types of inventories, but in practice, the values of inventories frequently are estimated by adjusting book or acquisition values of inventories with the aid of price indexes.”	IVS 2017 description of cost approach and market value use similar ideas.

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<i>equity method</i> (IPSAS 36, para. 8): Method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.	No references.	No reference in IVS 2017
<i>exchange difference</i> (IPSAS 4, para. 10): The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.	No references.	No reference in IVS 2017.
<i>exchange rate</i> (IPSAS 4, para. 10): The ratio of exchange for two currencies.	Para. 3.132 refers to exchange rates for currency conversion "The most appropriate exchange rate to be used for conversion of transactions and stock positions is the market (spot) rate prevailing on the transaction or balance sheet date. The midpoint between buying and selling rates should be used." Also para. 3.31 "Alternatively, the value of an asset expressed in foreign currency may change as a result of exchange rate changes, or the value of an asset may change due to the passing of time."	Reference to exchanges rates in para. 110.1, IVS 200. No description.
<i>exit price</i> (IFRS 13, Appendix A): The price that would be received to sell an asset or paid to transfer a liability.	There are references to "sale price" (e.g. para. 5.88) with respect to assets, but no references to transfer costs or price with respect to liabilities. (Transfer payment related to social benefits and has a different meaning.)	Reference to "market approach/exit value" in para. 50.22 IVS 105. Para. 50.24 states that "The market approach/exit value method can be performed in a number of ways, but the ultimate goal is to calculate the value of the asset at the end of the explicit cash flow forecast."

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<i>exit values</i> (CF, para 7.8 to 7.9): Exit values reflect the economic benefits from sale of an asset and also the amount that will be derived from use of the asset, and, for liabilities, the amount required to fulfil an obligation or the amount required to release the entity from an obligation.	No references.	Similar to “market approach/exit value” in para. 50.22 IVS 105.
<i>fair value</i> (IFRS 13, para. 9 and Appendix A): 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.	fair value (GFSM 2014 glossary, 3.115) “Fair value is a market-equivalent value defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s-length transaction.”	IVS 2017 includes the IFRS 13 definition of fair value in para. 90.1, “Fair Value as 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.
<i>fair value less costs to sell</i> (IPSAS 21, para. 14): The amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.	No references.	No reference in IVS 2017.
<i>guaranteed residual value</i> (IPSAS 13, para. 8) (a) For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and (b) For a lessor, that part of the residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor, that is financially capable of discharging the obligations under the guarantee.	There are references to residual value for e.g. in para. 7.15.	No reference in IVS 2017.
<i>highest and best use</i> (IFRS 13, Appendix A): The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (e.g. a business) within which the asset would be used.	No references.	Highest and best use (IVS 2017, IVS 104, 140.1 (Also, see 140.2- 140.5.)) “Highest and best use is the use, from a participant perspective, that would produce the highest value for an asset. Although the concept is most frequently applied to non-financial assets as many financial assets do not have alternative uses, there may be circumstances where the highest and best use of financial assets needs to be considered.”

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<p><i>historical cost</i> (CF, para 7.13 and 7.70): Historical cost for an asset is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development. Historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.</p>	<p>Historic cost (GFSM 2014 glossary, 3.115): Historic cost, in its strict sense, reflects the cost at the time of acquisition, but sometimes it may also reflect occasional revaluations</p>	<p>No reference in IVS 2017.</p>
<p><i>impairment</i> (IPSAS 21, para. 14): A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.</p>	<p>References to impairment, e.g. in para. 10.55: "These standards are typically conservative in the amount that may appear on the balance sheet of an enterprise and should be subject to an "impairment test" whereby accountants can satisfy themselves that the remaining value is likely to be realizable in case of a further sale of the enterprise."</p>	<p>Obsolescence—Section 80, IVS 105 describes different types of obsolescence.</p>
<p><i>impairment loss of a cash-generating asset</i> (IPSAS 17, para. 13): The amount by which the carrying amount of an asset exceeds its recoverable amount.</p>	<p>No references.</p>	<p>See obsolescence description in IVS 2017.</p>
<p><i>impairment loss of a non-cash-generating asset</i> (IPSAS 17, para. 13): The amount by which the carrying amount of an asset exceeds its recoverable service amount.</p>	<p>No references.</p>	<p>See obsolescence description in IVS 2017.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>income approach</i> (IFRS 13, Appendix A): Valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.</p>	<p>GFSM 2014 paragraph 7.33 describes the “present value of future returns” as follows: “In some cases, current market prices may be approximated by the present value of the future economic benefits expected from a given asset. Current prices can also be approximated by net present value when there are costs of bringing assets to the market. The economic benefit and costs can be discounted to estimate the net present value of the asset.</p>	<p><i>income approach</i> (IVS 2017, IVS 105, 40.1): The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset. <i>income approach methods</i> (IVS 2017, IVS 105, 50.1.) Income approach methods are ways to implement the income approach, and are [all] effectively based on discounting future amounts of cash flow to present value. They are variations of the Discounted Cash Flow (DCF) method.</p>
<p><i>initial direct costs</i> (IPSAS 13, para. 8): Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.</p>	<p>No references.</p>	<p>No reference in IVS 2017.</p>
<p><i>inputs</i> (IFRS 13, Appendix A): The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following: (a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and (b) the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.</p>	<p>No references in GFSM 2014.</p>	<p>IVS 2017 refers to “assumptions” in, for example para. 20.3 IVS 300, where the meaning appears to be similar to that of “inputs.”</p>
<p><i>interest rate implicit in the lease</i> (IPSAS 13, para. 8): The discount rate that, at the inception of the lease, causes the aggregate present value of: (a) The minimum lease payments; and (b) The unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor.</p>	<p>No references in GFSM 2014.</p>	<p>No reference in IVS 2017.</p>
<p><i>interest rate risk</i> (IPSAS 30, para. 8): The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.</p>	<p>No references.</p>	<p>No reference in IVS 2017.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<i>lease term</i> (IPSAS 13, para. 8): The non-cancellable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.	GFSM 2014 refers to “lease term” without definition or description. See, for e.g., para. A4.11 which states that “The lease contract transfers legal ownership of the asset to the lessee at the end of the lease term.”	Para. 40.4, IVS 104, refers to the “duration of the lease.”
<i>lessee’s incremental borrowing rate of interest</i> (IPSAS 13, para. 8): The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.	No references.	No reference in IVS 2017.
<i>level 1 inputs</i> (IFRS 13, Appendix A): Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	No references.	No similar description or defined term in IVS 2017.
<i>level 2 inputs</i> (IFRS 13, Appendix A): Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	No references.	No similar description or defined term in IVS 2017.
<i>level 3 inputs</i> (IFRS 13, Appendix A): Unobservable inputs for the asset or liability.	No references.	No similar description or defined term in IVS 2017.
<i>liquidity risk</i> (IPSAS 30, para. 8): The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.	GFSM 2014 para. 7.271 refers to liquidity risk.	No reference in IVS 2017.
<i>market approach</i> (IFRS 13, Appendix A): A valuation 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, such as a business.	Para. 3.113 states that “Stock positions should be valued at market value—that is, as if they were acquired in market transactions on the balance sheet reporting date (reference date). Market prices are readily available for assets and liabilities that are traded in active markets, most commonly certain financial assets and their corresponding liabilities.	market approach (IVS 2017, IVS 105, 20.1.) The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>market participant</i> (IFRS 13, Appendix A): 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 IAS 24, 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.</p>	<p>No references. There are references to buyers and sellers, see for e.g. para. 7.156.</p>	<p>No similar description or defined term in IVS 2017.</p>
<p><i>market risk</i> (IPSAS 30, para. 8): The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.</p>	<p>No references.</p>	<p>No reference in IVS 2017.</p>
<p><i>market value</i> (CF, para 7.24 and 7.80): Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.</p>	<p>3.107 Market prices refer to current exchange value—that is, the value at which goods, services, labor, or assets are exchanged or else could be exchanged for cash (currency or transferable deposits).</p>	<p>market value (IVS 2017, IVS 104, 30.1.) Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.</p>
<p><i>market-corroborated inputs</i> (IFRS 13, Appendix A): Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</p>	<p>No references.</p>	<p>No similar description or defined term in IVS 2017.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>minimum lease payments</i> (IPSAS 13, para. 8): The payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:</p> <p>(a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or</p> <p>(b) For a lessor, any residual value guaranteed to the lessor by:</p> <p>(i) The lessee;</p> <p>(ii) A party related to the lessee; or</p> <p>(iii) An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.</p> <p>However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.</p>	No references.	No reference in IVS 2017.
<p><i>most advantageous market</i> (IFRS 13, Appendix A): The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.</p>	No references.	No references in IVS 2017.
<p><i>net realizable value</i> (IPSAS 12, para. 9): The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.</p>	No references.	No reference in IVS 2017.
<p><i>net selling price</i> (CF, para 7.49): Net selling price is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale.</p>	No references.	No references. in IVS 2017.
<p><i>non-performance risk</i> (IFRS 13, Appendix A): The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.</p>	No references.	IVS 2017 para. 60.2, IVS 500, describes credit risks as being "uncertainty about the ability of the counterparty to make payments when due. Para 100.1 refers to risk of non-performance.

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>observable inputs</i> (IFRS 13, Appendix A): 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.</p>	<p>The idea of observable market prices is in para. 7.24, which states that “Ideally, observable market prices should be used to value all assets and liabilities in a balance sheet. However, in estimating the current market price for balance sheet valuation, a price averaged over all transactions in a market can be used if the market is one on which the items in question are regularly, actively, and freely traded.</p>	<p>No references IVS 2017.</p>
<p><i>orderly transaction</i> (IFRS 13, Appendix A): 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).</p>	<p>No references.</p>	<p>Orderly liquidation (IVS 2017, IVS 104, 160.1.) An orderly liquidation describes the value of a group of assets that could be realised in a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis.</p>
<p><i>other price risk</i> (IPSAS 30, para. 8): The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.</p>	<p>No references.</p>	<p>No reference in IVS 2017.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<i>present value of a defined benefit obligation</i> (IPSAS 39, para. 8): The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	present value (GFSM 2014 glossary, GFSM 2014 glossary) Present value is the value today of a future payment or stream of payments discounted at some appropriate compounded interest rate	No reference in IVS 2017.
<i>principal market</i> (IFRS 13, Appendix A): The market with the greatest volume and level of activity for the asset or liability.	GFSM 2014 para. 3.111 refers to the idea of relevant market when it says that “Generally, market prices should be taken from the markets where the same or similar items are currently traded in sufficient numbers and in similar circumstances.”	No reference in IVS 2017.
<i>recoverable amount</i> (IPSAS 17, para. 13): The higher of a cash-generating asset’s fair value less costs to sell and its value in use.	No references.	No reference in IVS 2017.
<i>recoverable amount (of an asset or a cash-generating unit)</i> (IPSAS 26, para. 13) The higher of an asset’s or a cash-generating unit’s fair value less costs to sell and its value in use.	No references.	No reference IVS 2017.
<i>recoverable service amount</i> (IPSAS 21, para. 14): The higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.	No references.	No reference in IVS 2017.
<i>remeasurements of the net defined benefit liability (asset)</i> (IPSAS 39, para. 8): Comprise: (a) Actuarial gains and losses; (b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).	No references.	No reference in IVS 2017.

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>replacement cost</i> (CF, 7.40, 7.47 and footnote 14): Replacement cost is the optimized depreciated replacement cost of an asset</p>	<p>Written-down replacement cost is the current acquisition price of an equivalent new asset minus the accumulated consumption of fixed capital, amortization, or depletion. (para 3.115, GFSM 2014)</p>	<p>replacement cost (IVS 2017, IVS 105, 70.2): Generally, replacement cost is the cost that is relevant to determining the price that a participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset.</p>
<p><i>risk premium</i> (IFRS 13, Appendix A): 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'.</p>	<p>No references.</p>	<p>No references in IVS 2017.</p>
<p><i>service cost</i> (IPSAS 39, para. 8): Service cost comprises:</p> <p>(a) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;</p> <p>(b) Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and</p> <p>(c) Any gain or loss on settlement.</p>	<p>No references.</p>	<p>No reference in IVS 2017.</p>
<p><i>service potential</i> (CF, para 5.8-5.9): Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.</p>	<p>No references.</p>	<p>Para. 20.5, IVS 300, refers to functional potential, which may have a similar meaning. ("A valuation of plant and equipment will normally require consideration of a range of factors relating to the asset itself, its environment and physical, functional and economic potential.)</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>spot exchange rate</i> (IPSAS 4, para. 10): The exchange rate for immediate delivery.</p>	<p>GFSM 2014 refers to “spot rate” with probably a similar meaning, see for e.g. para. 3.119 “The midpoint between the buying and selling spot rates should be used so that any service charge is excluded.”</p>	<p>No reference in IVS 2017.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>transaction costs</i> (IPSAS 29, para. 10): Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see [IPSAS 29] Appendix A para. AG26). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.</p> <p><i>transaction costs</i> (IFRS 13, Appendix A): The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:</p> <p>(a) They result directly from and are essential to that transaction.</p> <p>(b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in IFRS 5).</p>	<p>costs of ownership transfer (GFSM 2014 glossary, 8.6)</p> <p>Costs of ownership transfer are the costs associated with acquiring and disposing of nonfinancial assets (other than inventories)</p> <p>costs of ownership transfer (SNA 2008, 10.51) The costs of ownership transfer consist of the following kinds of items</p> <p>(i) All professional charges or commissions incurred by both units acquiring or disposing of an asset such as fees paid to lawyers, architects, surveyors, engineers and valuers, and commissions paid to estate agents and auctioneers. (ii) Any trade and transport costs separately invoiced to the purchaser, (iii) All taxes payable by the unit acquiring the asset on the transfer of ownership of the asset. (iv) Any tax payable on the disposal of an asset. (v) Any delivery and installation or disinstallation costs not included in the price of the asset being acquired or disposed of. (vi) Any terminal costs incurred at the end of an asset's life such as those required to render the structure safe or to restore the environment in which it is situated.</p>	<p>transaction costs (IVS 2017, IVS 104, 210.1) The seller's costs of sale or the buyer's costs of purchase and any taxes payable by either party as a direct result of the transaction⁴.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<i>transport costs</i> (IFRS 13, Appendix A): The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.	Refers to transport costs in, for e.g., para 8.6, when it states that costs of ownership transfer include “Any trade and transport costs separately invoiced to the purchaser.”	Refers to transport costs in, for example, IVS 105, 70.11 as an example of indirect costs.
<i>unearned finance revenue</i> (IPSAS 13, para. 8): The difference between: (a) The gross investment in the lease; and (b) The net investment in the lease.	No references.	No reference in IVS 2017.
<i>unguaranteed residual value</i> (IPSAS 13, para. 8): That portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.	No references.	No reference in IVS 2017.
<i>unit of account</i> (IFRS 13, Appendix A): The level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes.	GFSM 2014 defines money to be the unit of account in which stocks and flows are recorded. It refers to aggregation, with a different meaning.	No reference in IVS 2017.

⁴ As indicated by the following sentence; “Most bases of value represent the estimated exchange price of an asset without regard to the seller’s costs of sale or the buyer’s costs of purchase and without adjustment for any taxes payable by either party as a direct result of the transaction.”

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>useful life</i> (IPSAS 17, para. 13): Either:</p> <p>(a) The period over which an asset is expected to be available for use by an entity; or</p> <p>(b) The number of production or similar units expected to be obtained from the asset by an entity.</p>	<p>No references in GFSM 2014 in terms of statistical reporting. (A reference to IPSAS occurs in Box A4.5, “IPSASs treat a lease as a financial lease to the extent that the following criteria are met: (i) the contract period covers most of the useful life of the asset...”)</p>	<p>IVS 2017 refers to useful life in, for example, IVS 105, 20.5 (a) (2) which identifies “the remaining useful, economic or effective life, considering both preventive and predictive maintenance” as a factor to consider when valuing plant and equipment. It also refers to “intangible asset economic lives” in, e.g. IVS 210 100.1, which states that “An important consideration in the valuation of an intangible asset, particularly under the income approach, is the economic life of the asset. This may be a finite period limited by legal, technological, functional or economic factors; other assets may have an indefinite life. The economic life of an intangible asset is a different concept than the remaining useful life for accounting or tax purposes.</p>
<p><i>useful life (of a lease)</i> (IPSAS 13, para. 8): The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.</p>	<p>No references in GFSM 2014 in terms of statistical reporting. (A reference to IPSAS occurs in Box A4.5, “IPSASs treat a lease as a financial lease to the extent that the following criteria are met: (i) the contract period covers most of the useful life of the asset...”)</p>	<p>No reference in IVS 2017.</p>

IPSASB Definition (Includes all ED XX defined terms ²)	GFS discussion	IVS description
<p><i>useful life (of a non-cash-generating asset)</i> (IPSAS 21, para. 14): Either:</p> <p>(a) The period of time over which an asset is expected to be used by the entity; or</p> <p>(b) The number of production or similar units expected to be obtained from the asset by the entity.</p>	No references.	No reference in IVS 2017.
<p><i>value in use</i> (CF, para 7.58): Value in use is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.</p>	No references.	No references.
<p><i>value in use of a cash-generating asset</i> (IPSAS 26, para. 13): flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life</p>	<p>"Present value of future returns" is referred to in GFSM 2014 para. 3.125, which states that "Assets can be valued at the discounted present value of their expected future returns."</p>	No reference in IVS 2017.
<p><i>value in use of a non-cash-generating asset</i> (IPSAS 21, para. 14): The present value of the asset's remaining service potential.</p>	No references.	No reference in IVS 2017.