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| Project: | IPSASB Exposure Drafts on Public Sector Measurement | Meeting: | AASB June 2021 (M181) |
| Topic: | Overview of IPSASB EDs and scope of the AASB's submission | Date of this paper: | 7 June 2021 |
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| | | Project Priority: | Medium |
| | | Decision-Making: | High |
| | | Project Status: | Decide comments on some proposals in ED 76 and ED 77 |

Objectives and structure of this paper

1. In respect of IPSASB ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* and ED 77 *Measurement*, the objectives of this paper are for the Board to:
 - (a) **note** a high-level overview of the proposals in ED 76 and ED 77 ([Section 1](#));
 - (b) **decide** the scope of its submission, including which IPSASB Specific Matters for Comment (SMCs) to respond to ([Section 2](#)); and
 - (c) **decide** the topics to deliberate in the August 2021 meeting in order to finalise the submission ([Section 3](#)).
2. Agenda Paper 12.2 discusses key aspects of the proposed 'current operational value' measurement basis, about which the Board is also requested to make decisions.

Summary of staff recommendation on the scope of the Board's submission

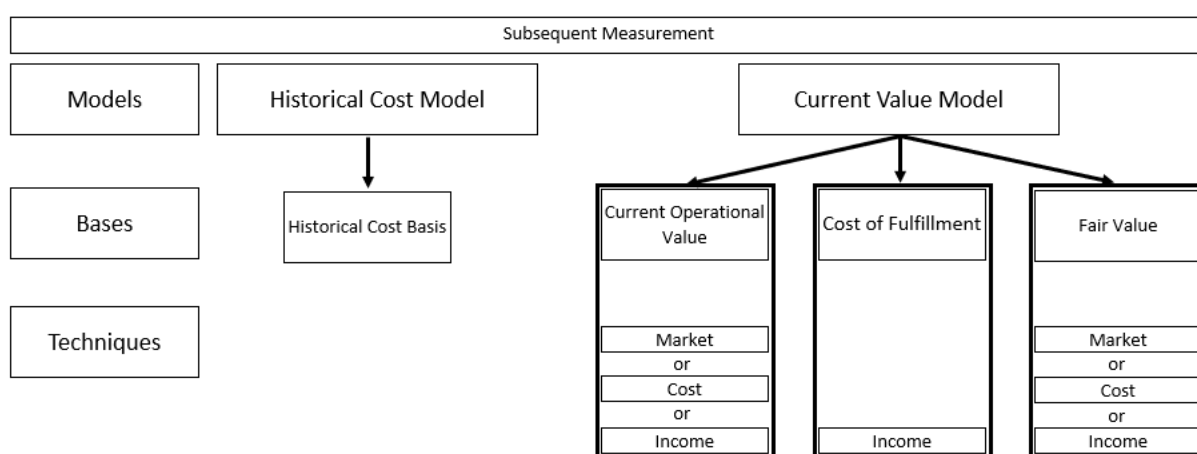
3. Subject to feedback on AASB ITC 45, staff recommend that the Board's submission to the IPSASB should focus only on the current value measurement bases considered by the IPSASB in respect of operational assets, and not on other assets or liabilities or other measurement bases.

Section 1: High-level overview of ED 76 and ED 77

4. This section provides a high-level overview of ED 76 and ED 77 to provide context to the discussions in the rest of this paper and the discussion in Agenda Paper 12.2. There is no question for the Board in this Section.

Three-tier measurement hierarchy for subsequent measurement

5. ED 76 proposes that, on initial measurement, an asset or a liability is generally measured at its transaction price. In view of the international consensus, conceptually and at a standards level, regarding that principle, this paper does not discuss initial measurement.
6. ED 76 proposes a measurement hierarchy for subsequent measurement to explain how the various principles required to estimate the value of an asset (or a liability) interact. The hierarchy has three levels:
 - (a) Measurement models – broad approaches to measuring assets or liabilities;
 - (b) Measurement bases – specific approaches to measuring assets and liabilities under the measurement model selected, based on information that best meets the qualitative characteristics; and
 - (c) Measurement techniques – methods to estimate the amount at which an asset or a liability is measured under the measurement basis selected.
7. ED 76 para. 7.6 includes the following diagram that summarises the measurement hierarchy.



Proposals in ED 76

8. Based on the above measurement hierarchy, ED 76 proposes to change the measurement bases in the current IPSASB's [Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities](#) (IPSASB Conceptual Framework). Table 1 below provides a high-level summary of those proposed amendments in ED 76.
9. For comparison, the measurement bases in the AASB's [Conceptual Framework for Financial Reporting](#) (i.e. the Revised Conceptual Framework) are also outlined in Table 1. The comparison is done on the Revised Conceptual Framework and not the Framework that is currently applicable to not-for-profit (NFP) entities, [Framework for the Preparation and Presentation of Financial Statements](#),¹ because the Board is undertaking a project to consider how the RCF should be applied to NFP entities including Chapter 6 *Measurement*, as discussed in Agenda Paper 10.1 [Initial staff proposals on NFP amendments to the Conceptual Framework for Financial Reporting](#) at the Board's meeting in September 2020.

1 The current NFP Conceptual Framework includes four measurement bases: historical cost, current cost, realisable (settlement) value and present value.

Table 1: Proposed changes to measurement bases in the IPSASB Conceptual Framework

| Measurement bases under IPSASB's current Framework | Proposals in ED 76 | Measurement bases under the AASB's Revised Conceptual Framework |
|---|---|--|
| <i>Measurement bases for assets</i> | | |
| <p>Historical cost [entity-specific, entry value] 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 (para. 7.13).</p> | <p>Retain 'historical cost' as a measurement basis for assets and retain the current definition.</p> | <p>Historical cost [entry value] The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs (para. 6.5).</p> |
| <p>Market value [non-entity-specific, entry/exit value] Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction (para. 7.24).</p> <p>Note: This 'market value' definition is the pre-IFRS 13 'fair value' definition, which could either be an entry value or an exit value. References to 'fair value' in current IPSAS refer to this pre-IFRS 13 definition (see paragraph 10).</p> | <p>Remove 'market value' and replace with IFRS 13's concept of 'fair value' [non-entity-specific, exit value] Fair value for assets is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (para. 7.36).</p> | <p>Fair value [market participants' perspective, exit value] Fair value is the price that would be received to sell an asset ... in an orderly transaction between market participants at the measurement date (para. 6.12).</p> |
| <p>Replacement cost [entity-specific, entry value] Replacement cost is the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date (para. 7.37).</p> | <p>Remove 'replacement cost' and replace with 'current operational value' [entity-specific, entry value] Current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date (para. 7.48).</p> | <p>Current cost [entry value] The current cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date (para. 6.21).</p> |

| Measurement bases under IPSASB's current Framework | Proposals in ED 76 | Measurement bases under the AASB's Revised Conceptual Framework |
|--|--|---|
| <p>Net selling price [entity-specific, exit value]</p> <p>Net selling price is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale (para. 7.49).</p> | <p>Remove from the Conceptual Framework</p> | <p>N/A – no similar measurement basis in the RCF</p> |
| <p>Value in use [entity-specific, exit value]</p> <p>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 (para. 7.58).</p> | <p>Remove from the list of current value measurement bases in the Conceptual Framework. If approved, the Conceptual Framework would only include a general description of value in use.</p> | <p>Value in use [entity-specific]</p> <p>Value in use is the present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal (para. 6.17).</p> |
| <i>Measurement bases for liabilities</i> | | |
| <p>Historical cost [entity-specific, entry value]</p> <p>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 (para. 7.70).</p> | <p>Retain 'historical cost' as a measurement basis for liabilities and retain the current definition.</p> | <p>Historical cost [entry value]</p> <p>The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs (para. 6.5).</p> |
| <p>Market value [non-entity-specific, entry/exit value]</p> <p>Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction (para. 7.80).</p> | <p>Remove 'market value' because this concept is expected to be replaced by the 'market approach' measurement technique under 'fair value'</p> <p>[non-entity-specific, exit value]</p> <p>Fair value for liabilities is the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date (para. 7.74).</p> | <p>Fair value [market participants' perspective, exit value]</p> <p>Fair value is the price that would be ... paid to transfer a liability in an orderly transaction between market participants at the measurement date (para. 6.12).</p> |

| Measurement bases under IPSASB's current Framework | Proposals in ED 76 | Measurement bases under the AASB's Revised Conceptual Framework |
|--|--|---|
| <p>Cost of fulfilment [entity-specific, exit value] 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 (para. 7.74).</p> | <p>Retain 'cost of fulfilment' as a measurement basis for liabilities and retain the current definition.</p> | <p>Fulfilment value [entity-specific, exit value] Fulfilment value is the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability. Those amounts of cash or other economic resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability (para. 6.17).</p> |
| <p>Cost of release [entity-specific, exit value] "Cost of release" is the term used in the context of liabilities to refer to the same concept as "net selling price" in the context of assets. It refers to the amount of an immediate exit from the obligation (para. 7.82).</p> | <p>Remove from the Conceptual Framework</p> | <p>N/A – no similar measurement basis in the RCF (the closest basis might be fair value (i.e. another exit value), but fair value is not entity-specific and does not take into account transaction costs associated with obtaining release)</p> |
| <p>Assumption price [entity-specific, entry value] "Assumption price" is the term used in the context of liabilities to refer to the same concept as replacement cost for assets. Assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability (para. 7.87)</p> | <p>Remove from the Conceptual Framework</p> | <p>Current cost [entry value] The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date (para. 6.21).</p> |

The term 'fair value' in the IPSASB's literature

- The term 'fair value' in current IPSAS, such as IPSAS 17 *Property, Plant and Equipment* and IPSAS 21 *Impairment of Non-Cash-Generating Assets*, refers to "the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction", which could be either an entry value or an exit value.

11. One of the key proposals in ED 76 is to:
 - (a) adopt the IFRS 13’s concept of ‘fair value’ across all IPSASB literature and remove the term ‘market value’ from the IPSASB Conceptual Framework – that is, ‘fair value’ would be a market-participants-based exit value; and
 - (b) introduce a new measurement basis: ‘current operational value’, which is an entity-specific entry value.

Proposals in ED 77

12. ED 77, which is a proposed new Measurement Standard, proposes definitions, initial measurement and subsequent measurement requirements for the four measurement bases proposed in ED 76 (listed below). ED 77 also proposes mandatory application guidance for each of the measurement bases, as outlined in the Appendices in ED 77:
 - Appendix A – Historical cost (for assets and liabilities)
 - Appendix B – Current operational value (for assets only)
 - Appendix C – Fair value (for assets and liabilities)
 - Appendix D – Cost of fulfilment (for liabilities only).

The IPSASB’s view on when to apply fair value or current operational value

13. ED 76 and ED 77 indicate that, when measuring the asset’s current value:
 - (a) **fair value** is appropriate if the asset is being held primarily for its ability to generate economic benefits (i.e. cash inflows or reductions in cash outflows) or with a view to sale, but would be inappropriate if the asset is being used for service delivery; and
 - (b) **current operational value** is appropriate if the asset will continue to be used for service delivery rather than being sold.
14. In contrast, the AASB has previously obtained feedback from most stakeholders who responded to consultations about IFRS 13 that fair value is appropriate for measuring the current value of operational assets held by Australian public sector entities, but also that guidance is needed to clarify some fair value application issues.
15. Table 2 below provides a high-level overview of the IPSASB’s explanation of the two measurement bases.

Table 2: Comparison of fair value with current operational value

| | Fair value (conforms to IFRS 13) | Current operational value |
|------------|--|---|
| Definition | 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. | The value of an asset used to achieve the entity’s service delivery objectives at the measurement date. |

| | Fair value (conforms to IFRS 13) | Current operational value |
|-------------------------|--|---|
| Measurement perspective | <ul style="list-style-type: none"> Measures an asset from the perspective of a market participant. Considers the highest and best use of the asset. Is an exit value, which measures how much an entity would receive to sell an asset. | <ul style="list-style-type: none"> Measures an asset from the perspective of the entity that holds the asset. Considers the current use of an asset based on the entity's policy objectives and disregards potential alternative uses. Is an entry value, which measures how much an entity would pay to replace an asset. |
| Measurement techniques | <ul style="list-style-type: none"> Market approach Cost approach Income approach | |

Section 2: The scope of the AASB's submission

16. Because ED 76 and ED 77 include many proposals, it is important to decide the scope of the Board's submission to ensure staff resources are allocated to focus on the important aspects of the proposals.
17. Staff recommend that the Board's submission focuses on the IPSASB's proposals that are most relevant to the Board's *Fair Value Measurement for Not-for-Profit Entities* project (FVM project) and the project on adapting its Revised Conceptual Framework for application by NFP entities (the NFP Conceptual Framework project), which are:
- (a) current value measurement of operational assets, including:
 - (i) all aspects of the proposed current operational value measurement basis; and
 - (ii) the IPSASB's rationale why fair value is inappropriate for measuring the current value of operational assets; and
 - (b) the removal of value in use and replacement cost as measurement bases from the IPSASB Conceptual Framework (in contrast, the IASB retained value in use and current cost as current value measurement bases in its RCF).
18. That is, subject to feedback received on AASB ITC 45, staff recommend that the Board does not include the following topics in its submission:²

2 Staff's proposed scope of comments is consistent with paragraph 20 of the Board's policy document [The AASB's Approach to International Public Sector Accounting Standards](#), which states: "The AASB will make formal submissions to the IPSASB in response to significant consultation documents issued by the IPSASB ... where there is no equivalent IFRS Standard or a known gap or practice issue in public sector accounting ..."

- (a) the historical cost measurement basis (because this topic is outside the scope of the Board’s existing projects and is covered in depth at an IPSASB Standards level);
 - (b) current value measurement of assets held for their financial capacity. Consistent with the Board’s approach, the IPSASB proposes that fair value would be the appropriate current value measurement basis for such assets. The Board has not received feedback from Australian stakeholders that this approach is inappropriate. Therefore, staff recommend that the Board supports the IPSASB’s proposal without needing to reconsider this topic;
 - (c) whether the proposed application guidance on fair value (set out in Appendix C of ED 77) is appropriate for application by NFP public sector entities for measuring the current value of assets held for their financial capacity. Since the guidance aligns with IFRS 13, and for the same reasons given in (b), staff do not think the Board’s submission should focus on this topic; and
 - (d) current value measurement of liabilities, including the cost of fulfilment measurement basis, because the Board has not yet commenced deliberation of applying the measurement bases in the IASB’s RCF to liabilities in an NFP entity context.
19. In addition, prior to the Board completing its NFP Conceptual Framework project, it would be premature to express definitive views on the Board’s preferred measurement model for Australian NFP public sector entities in measuring the current value of operational assets (discussion of which is expected to commence at the November 2021 meeting), including how an NFP entity’s ‘wealth’ ideally should be measured or represented in financial statements. Therefore, staff recommend in Agenda Paper 12.2 that the Board expresses general support for exploring an alternative measurement basis to fair value for operational assets without advancing a particular alternative.

Questions to the Board

- Q1: Do Board members agree with the staff recommendation in paragraph 17 that the focus of the Board’s submission should be on the IPSASB’s proposals regarding:
- (a) all aspects of the proposed current operational value measurement basis;
 - (b) the IPSASB’s rationale why fair value is inappropriate for measuring the current value of operational assets; and
 - (c) the removal of certain measurement bases from the IPSASB Conceptual Framework?
- Q2: Do Board members agree with the staff recommendation that the Board should not express a view in its submission to the IPSASB on the items listed in paragraphs 18–19?

IPSASB SMCs to provide feedback on

20. The [Appendix](#) to this paper outlines staff’s recommended approach to responding to the IPSASB SMCs in ED 76 and ED 77. Subject to the Board’s decisions on Q1–Q2 above and the result of feedback on AASB ITC 45, staff suggest responding only on the few SMCs that are related to the topics outlined in paragraph 17.
21. In summary, staff recommend responding specifically on:
- (a) SMC 4 in ED 76 regarding removal of value in use as a measurement basis from the IPSASB’s Conceptual Framework;

(b) SMC 5 in ED 76 regarding removal of the replacement cost measurement basis from the IPSASB’s Conceptual Framework; and

(c) SMCs 5–9 in ED 77 regarding current value measurement of assets.

22. Staff observe that the NZASB has decided at its May 2021 meeting to respond to the majority of the SMCs in ED 76 and ED 77. This is because it adopts IPSAS for Public Benefit Entities (PBEs) and some of the proposals could lead to changes in practice for these entities.

Question to the Board

Q3: Do Board members agree with the staff recommendation to respond specifically to the SMCs outlined in paragraph 21?

Section 3: Topics for deliberation at August 2021 meeting

23. Table 3 provides an outline of topics for deliberation at this meeting (see Agenda Paper 12.2) and staff’s proposed topics for deliberation at the August meeting.
24. The proposed topics for deliberation at the August meeting are subject to the Board’s decisions in Q1–Q3 and comments received on AASB ITC 45.

Table 3: Topics for deliberation at June and August 2021 AASB meetings

| Topics for deliberation | Related IPSASB SMCs |
|---|-------------------------------------|
| For discussion at this meeting (see Agenda Paper 12.2) | |
| Topics 1–4 relate to key aspects of current operational value and how they differ from fair value | |
| 1. The IPSASB’s rationale for concluding fair value is inappropriate for measuring the current value of an operational asset | ED77 SMC5 ED77 SMC6 |
| 2. Measuring an asset’s current value based on its current use and ignoring alternative uses and reinvestment potential | |
| 3. Measuring an asset’s current value based on an entity-specific entry value | |
| 4. Definition of current operational value and measurement techniques used in estimating current operational value, including whether: (a) the use of the income approach is appropriate; and (b) current operational value should focus on the cost of replacing an operational asset. | ED77 SMC5 ED77 SMC6 ED77 SMC8 |
| Proposed topics for discussion at August 2021 meeting | |
| Topics 5–8 relate to aspects of current operational value that the Board has previously reached tentative views on in the context of fair value | |
| 5. How should restrictions be considered in current value measurement? | ED77 SMC6 |
| 6. Interaction between surplus capacity, economic obsolescence and impairment | ED77 SMC6 |
| 7. Cost approach: The assumed location of the asset when estimating the current replacement cost of a modern equivalent asset | ED77 SMC7 |

| Topics for deliberation | Related IPSASB SMCs |
|--|------------------------|
| 8. Cost approach: Nature of costs to be included when estimating the current replacement cost of a modern equivalent asset | ED77 SMC6 |
| 9. Removal of measurement bases from the IPSASB's Conceptual Framework | ED76 SMC4 ED76 SMC5 |

Questions to the Board

Q4: Subject to the Board's decisions in Q1–Q3 and comments received on AASB ITC 45, do Board members agree with the staff recommendation that the topics listed in Table 3 should form the basis of the Board's submission?

Q5: Are there any other topics on which Board members would like to comment to the IPSASB?

Appendix: IPSASB SMCs to provide feedback on

Tables 4 and 5 outline staff's recommended approach in responding to IPSASB SMCs. This recommendation is subject to the Board's decisions in Q1–Q5 of this paper and the result of feedback on AASB ITC 45. At this stage, staff suggest responding only on the small number of IPSASB SMCs most relevant to the Board's FVM project and NFP Conceptual Framework project.

Table 4: Proposed approach to SMCs in ED 76

| Summary of each SMC in ED 76 | Staff recommendation |
|--|---|
| SMC 1: Do you agree with the proposed three-tier measurement hierarchy? | Not to comment on these SMCs in ED 76 because comments on SMC 5–SMC 9 in ED 77 would indirectly provide input on these questions. |
| SMC 2: Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities in the Conceptual Framework and with its definition? | |
| SMC 3: Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework? | |
| SMC 4: Do you agree with the proposal to substitute a general description of value in use (VIU) for the previous broader discussion of VIU? | To comment, this will be assessed as part of Topic 9 in Table 3. |
| SMC 5: Noting that ED 77 <i>Measurement</i> proposes the use of the cost approach and the market approach as measurement techniques, do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework? <ul style="list-style-type: none"> • Market value for assets and liabilities • Replacement cost for assets. | To comment, this will be assessed as part of Topic 9 in Table 3. |
| SMC 6: The IPSASB considers that the retention of certain measurement bases is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework? <ul style="list-style-type: none"> • Net selling price for assets • Cost of release for liabilities • Assumption price for liabilities. | Not to comment. Not relevant to the Board's current projects. |
| SMC 7: Are there any other issues relating to the Measurement chapter of the Conceptual Framework that you would like to highlight? | Not to comment. |

Table 5: Proposed approach to SMCs in ED 77

| Summary of each SMC in ED 77 | Staff recommendation |
|---|---|
| <p>SMC 1: Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless</p> <ul style="list-style-type: none"> • That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or • Otherwise required or permitted by another IPSAS? | <p>Not to comment. This is consistent with Australian Accounting Standards.</p> |
| <p>SMC 2: Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value?</p> | <p>Not to comment. This is consistent with Australian Accounting Standards.</p> |
| <p>SMC 3: Do you agree the guidance on historical cost (Appendix A) is appropriate for application by public sector entities?</p> | <p>Not to comment. Historical cost is not relevant to the Board’s current projects.</p> |
| <p>SMC 4: Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?</p> | |
| <p>SMC 5: Do you agree current operational value is the value of an asset used to achieve the entity’s service delivery objectives at the measurement date?</p> | <p>Provide specific comments on these SMCs, through analysis of Topics 1–8 in Table 3.</p> |
| <p>SMC 6: Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B)?</p> | |
| <p>SMC 7: Do you agree the asset’s current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used?</p> | |
| <p>SMC 8: Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis?</p> | |
| <p>SMC 9: Do you agree the guidance on fair value (Appendix C) is appropriate for application by public sector entities?</p> | <p>Provide comment only on the IPSASB’s rationale that fair value is inappropriate for the current value measurement of operational assets.</p> |
| <p>SMC 10: Do you agree the guidance on cost of fulfillment (Appendix D) is appropriate for application by public sector entities?</p> | <p>Not to comment. The Board has not yet commenced deliberating measurement concepts for liabilities in its</p> |

| Summary of each SMC in ED 77 | Staff recommendation |
|--|--|
| | NFP Conceptual Framework project. |
| SMC 11: Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77? | Due to resource constraints, staff recommend not commenting on proposed disclosure requirements. |
| SMC 12: Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77? | |
| SMC 13: Do you agree current value model disclosure requirements should be applied consistently across IPSAS? | |
| SMC 14: Do you agree with the proposed disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition? | |
| SMC 15: Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy? | |