

ED 175 - Measurement

IPSASB Consultation Paper





Background

- IPSASB completed work on Conceptual Framework in 2014.
- Conceptual Framework (Chapter 7) establishes measurement concepts for measurement of assets and liabilities.
- Measurement project added in 2017 to address measurement requirements in IPSAS.

Project Objectives

Measurement requirements in IPSAS should be amended to better align them with the Conceptual Framework's measurement concepts

- Provide more detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used
- Address transaction costs and borrowing costs
- Where necessary, issue amended IPSAS with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure

Source: IPSASB



Project Scope

- Establish a single comprehensive IPSAS for measurement.
- Guidance is generic → excludes guidance that applies to specific IPSAS or transaction.
- Guidance obtained from a number of sources:
 - Existing guidance in IPSAS
 - IFRS guidance to maintain alignment (where necessary)
 - IVS and GFS guidance



Project Scope

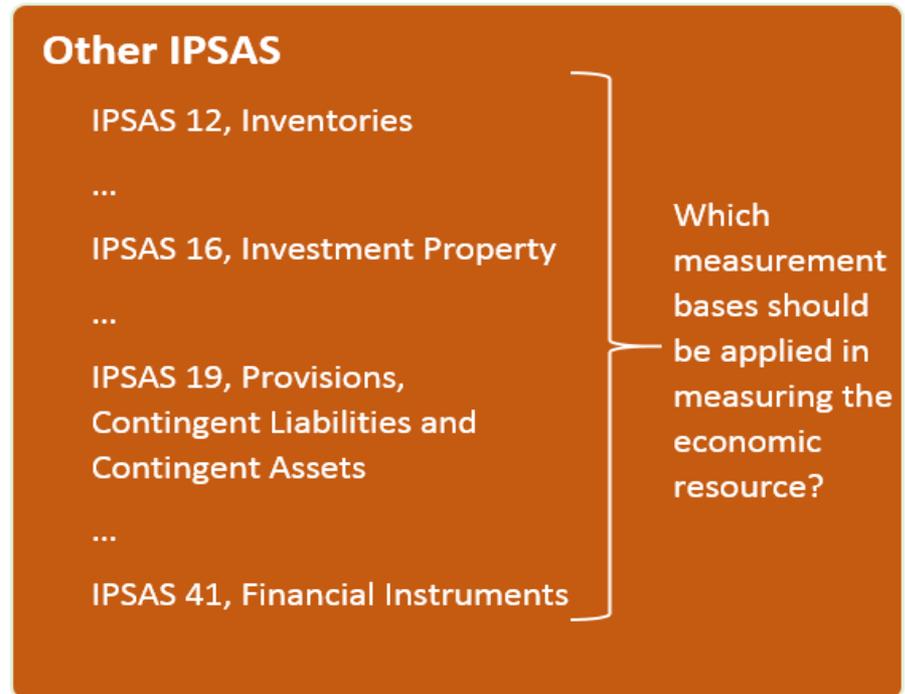
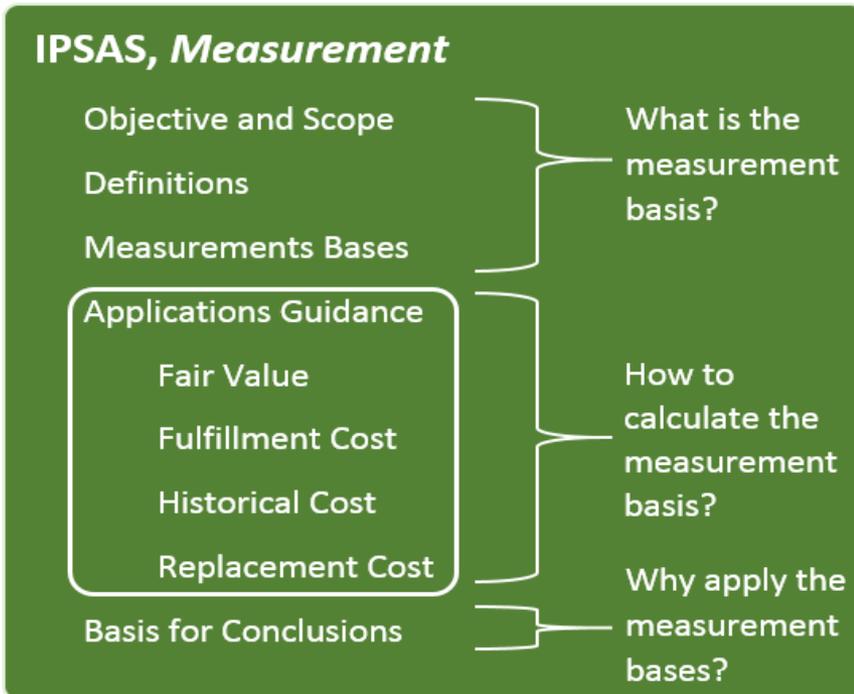
IPSASB agreed to scope out the following aspects of measurement:

- Impairment
 - Impairment as guidance is specific and robust thus should be located in IPSAS 21 and IPSAS 26.
- Disclosures
 - Disclosures are specific to each transaction and should be located in the relevant IPSAS.

Project Output

How Do You Calculate the Measurement Bases (Consultation Phase)

Which Measurement Basis Do You Use (Exposure Draft Phase)



Source: IPSASB

Project Development



Consultation Paper

What measurement bases?
 Conceptual Framework context
 Sources of proposed Application Guidance

How to implement bases
 Comparison with IVS and GFS
 Borrowing costs
 Transaction costs

Which bases to apply
 Applying the measurement principles in IPSAS

Illustrative ED, Measurement

What—Definitions of measurement bases
How—Application guidance
Why—Basis for conclusions

ED, Measurement

Incorporating changes to Illustrative ED, Measurement, to address, as appropriate, matters raised as a result of the CP phase of the project

Consequential Amendments

Amendments to other IPSAS, as follows:
 Existing measurement guidance removed (transferred to IPSAS, Measurement)
 Revision to measurement based terms. (To align with Conceptual Framework and reflect public sector needs)

Transitional Provisions

How entities should transition to requirements proposed in ED, Measurement

IPSAS, Measurement

Issued as final Standard

Amendments to other IPSAS

Consequential amendments to other IPSAS approved. Other IPSAS are amended accordingly

Source: IPSASB



Current project stage

- The IPSASB issued CP in April 2019 for comment.
- New structure of the CP includes an Illustrative ED on *Measurement*.
 - CP = concepts-based discussion with areas where IPSASB reached preliminary views (PVs)
 - ED = illustration of what the draft IPSAS on *Measurement* could look like based on the PVs in the CP



Current project stage

- IPSASB requesting comment on the CP and ED by 30 September 2019.
- Feedback from ASB stakeholders will be used to formulate comment letter to the IPSASB.

Impact of project locally

- Output of the measurement project is an IPSAS on *Measurement* as well as amendments to other IPSAS.
- ASB measurement concepts and requirements in Conceptual Framework and Standards of GRAP are primarily drawn from IPSAS.
- Board will consider developing an equivalent Standard on measurement and amend the relevant Standards of GRAP for alignment with the Conceptual Framework in future.

Impact of project locally

- IPSASB expected to issue final IPSAS in first half of 2021.
- Based on the ASB work programme consultation for 2021 to 2023 a project will be considered for the 2024 – 2026 cycle of the work programme.

Outline of the Consultation Paper

Chapter 1 What are the principles in the Conceptual Framework?

Chapter 2 How has the Illustrative ED been developed?

Chapter 3 How the Illustrative ED will be developed further?

Chapter 4 Applying the measurement principles in the Conceptual Framework to individual IPSAS

Outline of the addendums

Addendum A
Illustrative
Exposure
Draft X,
Measurement

Addendum B
Comparison
Table

Addendum C
IFRS 13, Fair
Value
Measurement
Mapped to IPSAS

Chapter 1

Chapter 1 What are the principles in the Conceptual Framework?

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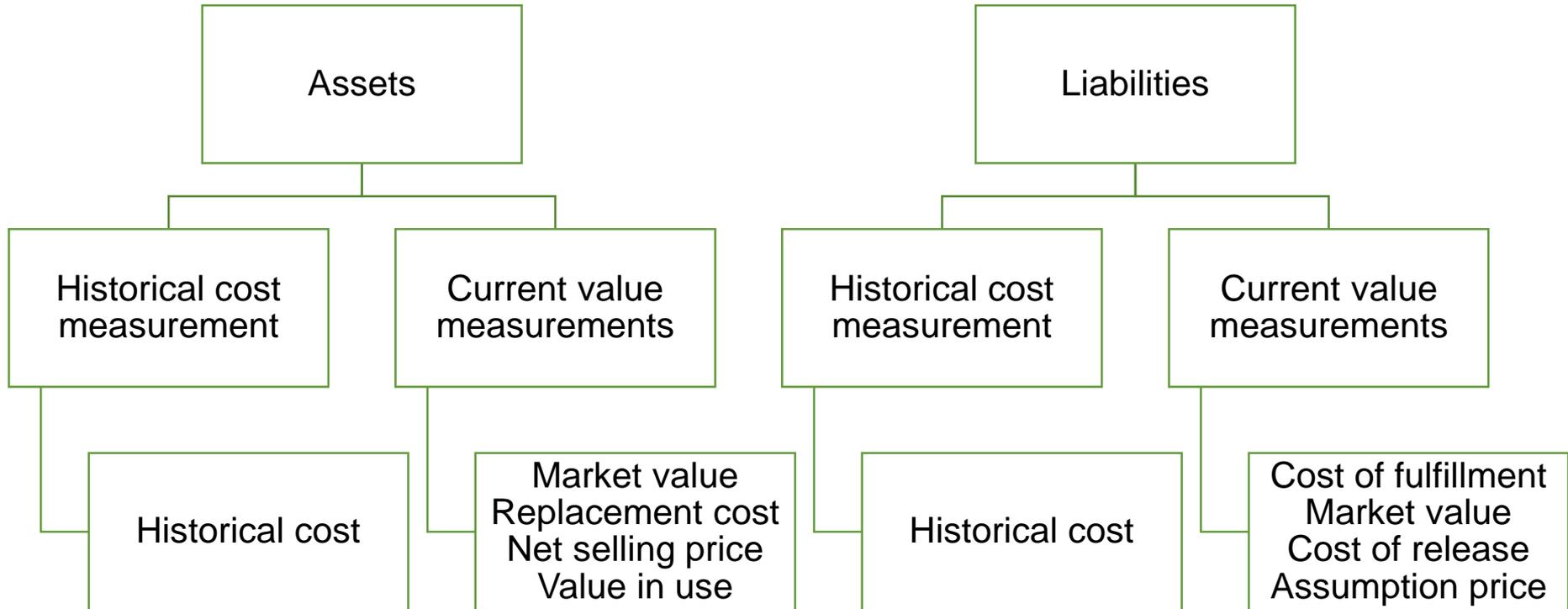


Principles in the Conceptual Framework

- CF identifies measurement bases for assets and liabilities
- CF establishes a measurement objective that informs the selection of measurement bases:

*“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”*

Principles in the Conceptual Framework





Principles in the Conceptual Framework

- Objective of CF is not to provide a single measurement basis.
- CF identifies factors that should be considered in assessing which measurement basis to use, for example:
 - The nature (or attributes) of the measurement basis; and
 - The nature and circumstances of the asset/liability being measured

Principles in the Conceptual Framework

Factors about the measurement basis

<p><i>Does the measurement basis provide an entry or exit value?</i></p>	<p>Entry value:</p> <ul style="list-style-type: none"> • <i>Assets:</i> It reflects cost of purchase. • <i>Liabilities:</i> It reflects amount at which obligation is received/assumed. 	<p>Exit values:</p> <ul style="list-style-type: none"> • <i>Assets:</i> It reflects either economic benefits from the immediate sale or amount to be derived from use and subsequent sale. • <i>Liabilities:</i> It reflects amount required to fulfil obligation or to be released from obligation.
<p><i>Is the measurement observable in the market or not?</i></p>	<p>Observable in market:</p> <ul style="list-style-type: none"> • It is observable in open, active and orderly market and, it is understandable and verifiable. 	<p>Unobservable in market:</p> <ul style="list-style-type: none"> • It is less understandable and verifiable than observable measurement bases.
<p><i>Is the measurement basis entity-specific or not?</i></p>	<p>Entity specific:</p> <ul style="list-style-type: none"> • It reflects entity's position not a hypothetical market i.e. entity's own economic opportunities and risks. 	<p>Non-entity specific:</p> <ul style="list-style-type: none"> • It reflects general market opportunities and risks.

Chapter 2

Chapter 1 What are the principles in the Conceptual Framework?

Chapter 2 How has the Illustrative ED been developed?

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Chapter 4 Applying the measurement principles in the Conceptual Framework to individual IPSAS



Selecting measurement bases requiring guidance

- ED reflects how the IPSASB's PVs will look like in the final IPSAS.
- IPSASB had to make a decision about which measurement bases required guidance.
 - CF established principles for 8 measurement bases but IPSAS uses others and some of these measurement bases
 - Assess which measurement bases are commonly used in IPSAS

Selecting measurement bases requiring guidance

Measurement base in CF and/or IPSAS	It is identified in the CF?	Is it applied in IPSAS?	Which IPSAS applies it?	Is it commonly used and requires guidance?
Fair value	✗	✓	IPSAS 16, 17, 41	✓
Historical cost	✓	✓	IPSAS 16, 17	✓
Replacement cost	✓	✓	IPSAS 17, 33	✓
Market value	✓	✗	Not applied	
Net realisable value	✓	✓	IPSAS 12 (NSP)	
Value in use	✓	✓	IPSAS 21, 26	
Fulfilment value	✓	✓	IPSAS 19	✓
Cost of release	✓	✗	Not applied	
Assumption price	✓	✗	Not applied	

Selecting measurement bases requiring guidance

Measurement base	Proposed Definition
<i>Fair Value</i>	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (as defined in IFRS 13).
<i>Historical Cost</i>	Assets - Consideration given to acquire or develop an asset. Liabilities - Consideration received to assume an obligation.
<i>Replacement Cost</i>	The most economic cost required for the entity to replace the service potential of an asset (including the amount that would be received from the asset's disposal).
<i>Fulfilment Value</i>	Cost that an entity will incur in fulfilling the obligations represented by the liability.

Preliminary View #1

The IPSASB's PV is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.



Preliminary View #2

The IPSASB's PV is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons, and state what guidance should be included, and why.



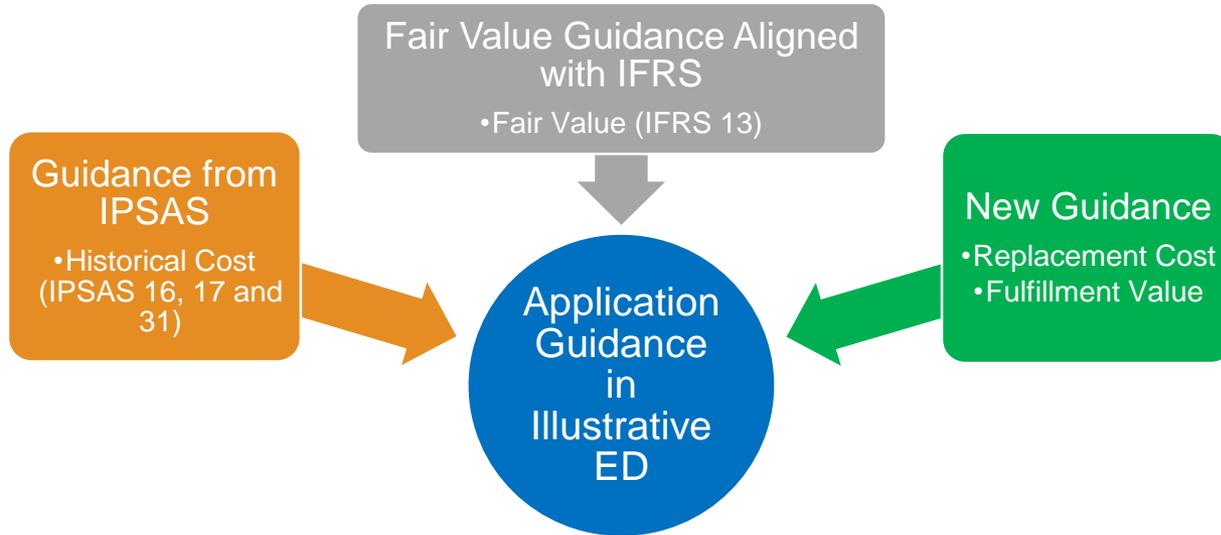
SMC #1

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

- Do you agree that the list of definitions is exhaustive?
- If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Sources of guidance

- ED reflects the application guidance for the 4 measurement bases. This guidance was sourced from:



Source: IPSASB

Guidance on historical cost

- Guidance on historical cost is based on existing generic guidance from IPSAS 16, 17, 31
- To avoid duplication of guidance – the guidance carried over from IPSAS 16, 17, 31 will be assessed for removal in the next phase of the project (part of the consequential amendments to other IPSAS)



Preliminary View #3

The IPSASB's PV is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost - Application Guidance for Assets, to be complete.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons, stating clearly what you consider needs to be changed.



Guidance on fulfilment value

- There is limited guidance on fulfilment in IPSAS.
- Guidance developed is an expansion of the principles in the CF.
- IPSASB also considered guidance developed by comparable standard setters.

Preliminary View #5

The IPSASB's PV is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value - Application Guidance, to be complete.

- Do you agree with the IPSASB's PV
- If not, please provide your reasons, stating clearly what you consider needs to be changed.



Guidance on replacement cost

- There is limited guidance on replacement cost in IPSAS.
- Guidance developed is an expansion of the principles in the CF.
- IPSASB also considered guidance developed by comparable standard setters, practice from constituents and the valuation community.

Preliminary View #6

The IPSASB's PV is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost - Application Guidance, to be complete.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons, stating clearly what you consider needs to be changed.

Guidance on fair value

- IPSAS refer to fair value (as defined pre-IFRS 13).
- CF does not identify fair value as a measurement basis but refers to market value.
- IFRS 13 was issued in 2011 which defines fair value as an exit-based measure.
- Key challenge for the IPSASB is that IPSASs are drawn from IFRS which refer to fair value.

Guidance on fair value

- IPSASB had to determine whether fair value in IFRS 13 has relevance in the public sector:
 - Fair value measurement requirements are most commonly referred to in IPSAS aligned with IFRS.
 - To achieve consistency and comparability, IPSASB agreed that IFRS 13 fair value should only be used in IPSAS where references to fair value are intended to mean the same as IFRS 13.

Guidance on fair value

- IPSASB agreed to formalise fair value as a public sector measurement basis as it is relevant in the public sector.
 - Guidance on fair value should be based on IFRS 13 and modified to address public sector differences.
 - Guidance is only generic guidance. Guidance dealing with specific transactions (i.e. financial instruments) is excluded as it should be included in the relevant IPSAS.

Preliminary View #4

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value - Application Guidance, to be complete.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons, stating clearly what you consider needs to be changed.



Challenges with introducing IFRS 13 in IPSAS (PV4)

- IPSASB's PV to incorporate IFRS 13 into IPSAS will give rise to some challenges:
 - Replacement cost is a measurement technique to determine fair value in IFRS 13 vs replacement cost as a measurement bases in the CF.
 - Fair value, net selling price and value in use of a cash generating asset are determined by a present value calculation of estimated net future cash flows expected. Valuers do not recognise value in use as a basis of value.

Challenges with introducing IFRS 13 in IPSAS (PV4)

- Relationship between market value and fair value.
 - Significant overlap in definitions if IPSAS is aligned with IFRS 13 will create confusion.
 - Market value definition in CF is aligned with IASB's pre-IFRS 13 fair value definition which is either an exit or entry value. IFRS 13 fair value definition is explicitly exit value.
 - IPSASB believes the public sector requires both entry and exit values when measuring items at current value but recognises the need to differentiate between the two terms.



Challenges with introducing IFRS 13 in IPSAS (PV4)

- IPSASB proposes to evaluate its approach to market value, as well as the other challenges in its Limited-scope Review of the Conceptual Framework.
- Various options will be considered including:
 - Renaming market value;
 - Amending the definition of market value to focus on entry aspects of the measurement basis; or
 - Removing market value as a public sector measurement basis.

Chapter 3

Chapter 1 What are the principles in the Conceptual Framework?

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Chapter 4 Applying the measurement principles in the Conceptual Framework to individual IPSAS

Using bases in practice

- Developing the ED required the IPSASB to review definitions of similar concepts in IFRS, IVS and GFS.
- IPSASB considered whether some concepts in IVS and GFS needed to be included in IPSAS.
- Addendum B includes a comparison table that indicates broad equivalence between IPSAS, IVS and GFS for:
 - Fair value and replacement cost



Using bases in practice

- Net selling price (IPSAS) and liquidation value (IVS)
- Value in use (IPSAS) and investment value (IVS)
- IPSASB will explore these further in the next phase
 - Valuation approaches of equitable value and synergistic value (IVS) will be examined to determine if they are appropriate for the public sector.



SMC #2

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted.

- Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?
- Do you agree that, in developing an ED, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?



Borrowing costs

- Borrowing costs are defined as interest and other expenses incurred in connection with the borrowing of funds.
- IPSAS 5 allows entities to either expense (benchmark treatment) or capitalise (alternative treatment) borrowing costs.
- CP considers 4 options for treatment of borrowing costs.

Borrowing costs

Borrowing costs – <i>acquisition, construction or production of qualifying asset</i>	Option 1 (IPSAS)	Option 2 (IFRS)	Option 3 (Alternative option)	Option 4 (GFS)
Directly attributable and specifically incurred	Expense or capitalise	Must capitalise	Expense or capitalise	Expense
Directly attributable but not specifically incurred	Expense or capitalise	Must capitalise	Expense	Expense
Borrowing costs – <i>interest and other expenses incurred in connection with the borrowing of funds</i>	Expense	Expense	Expense	Expense



Preliminary View #7

The IPSASB's PV is that 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 PV?
- If not, please state which option you support and provide your reasons for supporting that option.

Transaction costs

- IPSAS define transaction costs or their equivalent in various ways. Explicit definition found in IPSAS 41.
- IPSAS does not have clear principles on whether transaction costs should be included or excluded in the carrying amount of an item.
- CF proposes a universal definition derived from IPSAS 41 after considering IFRS, IVS and GFS concepts.

Preliminary View #8

The IPSASB's PV is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.



Guidance on transaction costs

- Incremental interpretation guidance added to ED to clarify the definition.
- Consider the location of the guidance and how it interacts with requirements in IPSAS
 - Option 1: address transaction costs in measurement IPSAS.
 - Option 2: address transaction costs in individual IPSAS.
 - Option 3: IPSAS would be silent on accounting for transaction costs.



Preliminary View #9

The IPSASB's PV is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Accounting for transaction costs

- IPSAS is unclear about the accounting for transaction costs:
 - Current accounting is ambiguous – if incurred at entry → capitalise; if incurred at exit → deduct
 - Minimal guidance on accounting when incurred on sale of asset or settlement of liability
 - Uncertainty whether fair value for non-exchange transactions includes transaction costs.
 - Uncertainty whether replacement costs includes transaction costs
 - No clear guidance whether estimates of non-financial liabilities should take into account transaction costs



Accounting for transaction costs

- IPSASB considered IFRS, IVS and GFS in evaluating how to account for transaction costs.
- IPSASB concluded that accounting should be made on the basis of:
 - Objective of the measurement basis; and
 - Whether the costs are entry or exit based.

Accounting for transaction costs

Measurement Basis	Measurement objective	Timing of Transaction Costs	
		Entering transaction	Exiting transaction
Fair Value	Exit price	Exclude	
Fulfilment Value	Exit price	Exclude	Include
Historical Cost	Entry price	Include	Exclude
Replacement Cost	Entry price	Include	Exclude



Preliminary View #10

The IPSASB's PV is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfilment value;
 - Excluded from the valuation of assets and liabilities measured at fair value; and
 - Included in the valuation of assets measured at historical cost and replacement cost.
- Do you agree with the IPSASB's PV?
- If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Preliminary View #11

The IPSASB's PV is that transaction costs incurred when exiting a transaction should be:

- Included in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

- Do you agree with the IPSASB's PV?
- If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Chapter 4

Chapter 1 What are the principles in the Conceptual Framework?

Chapter 2 How has the Illustrative ED been developed?

Chapter 3 How the Illustrative ED will be developed further?

Chapter 4 Applying the measurement principles in the Conceptual Framework to individual IPSAS



Measurement methodology

- CP addresses how the measurement principles in the CF should be interpreted at a standards' level.
- IPSASB proposes a methodology it will adopt in reviewing measurement requirements in existing IPSAS and developing new IPSAS.

Measurement methodology

- IPSASB has developed flowcharts based on the measurement principles in the CF.
- The flowcharts take a broad approach when identifying the appropriate measurement basis for subsequent measurement of assets and liabilities (diagram 4.1 and diagram 4.2).

Measurement methodology

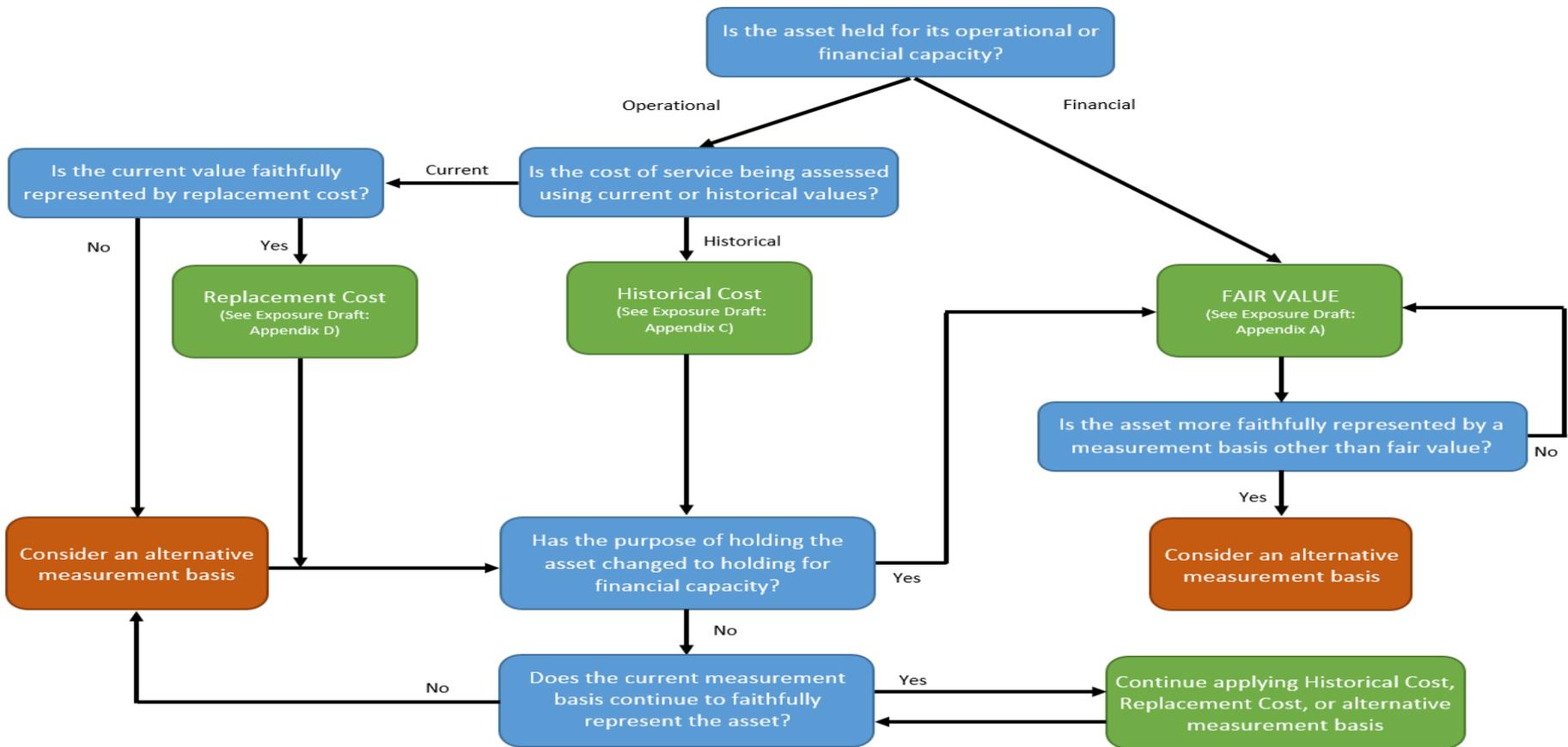
- IPSASB will review measurement requirements in each IPSAS using the flow charts. If the flowchart answer is:
 - Consistent with existing IPSAS requirements → no further analysis.
 - Inconsistent with existing IPSAS requirements → additional analysis required:
 - Does the current measurement basis more fairly represent the economic substance of the transaction?
 - Is a change in measurement basis necessary to align with the flowchart?



Measurement methodology

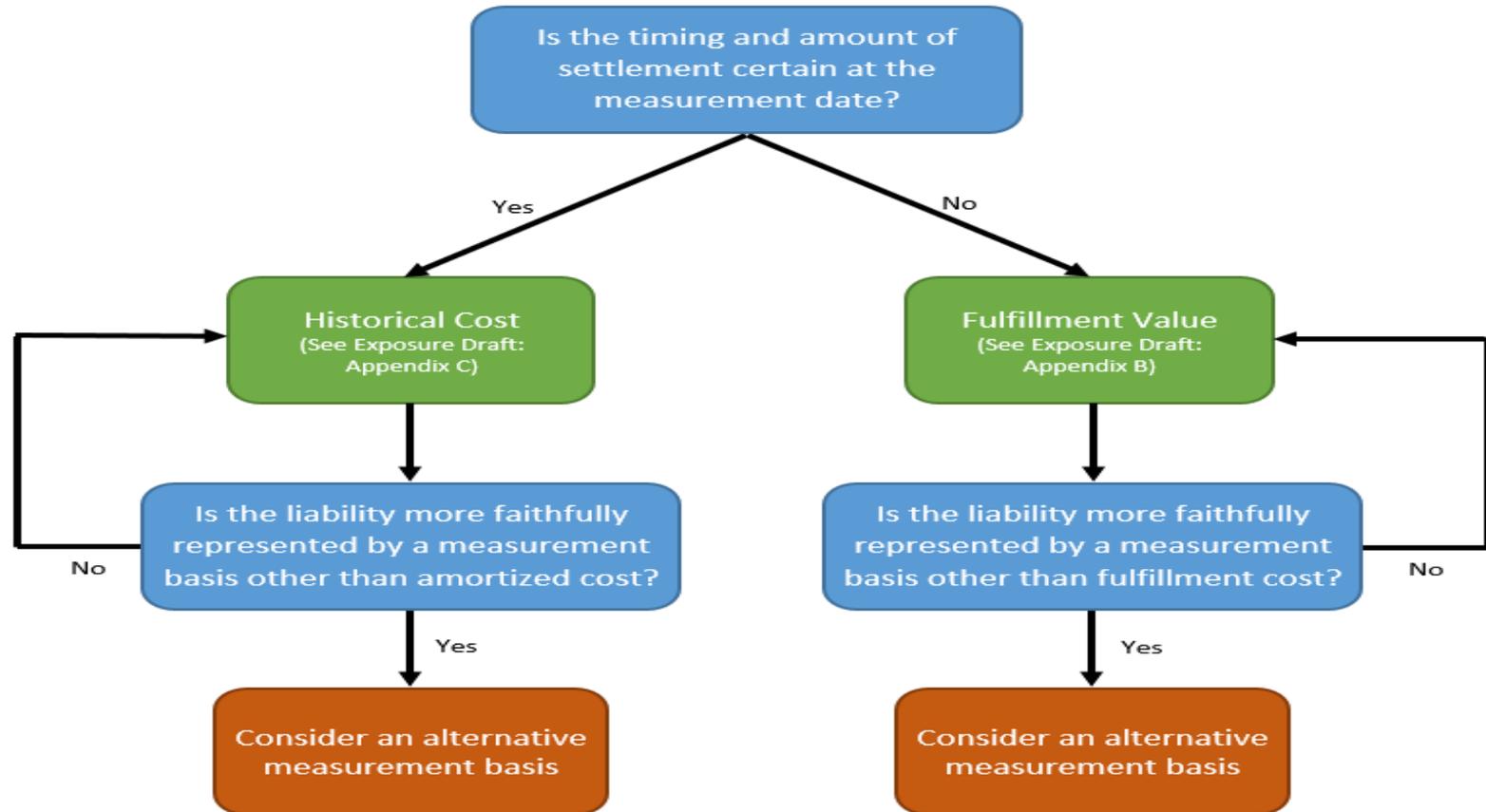
- IPSASB will depart from flowchart “answer” only when the economic substance is better represented by another measurement basis.
- If changes are required – these will be exposed for comment.

Assets Flowchart



Source: IPSASB

Liabilities Flowchart



Source: IPSASB

SMC #3

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;
 - Reducing unnecessary differences with GFS;
 - Reducing unnecessary differences with IFRS Standards; and
 - Improving consistency across IPSAS.
- If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.



Submitting comments

- Comment period is 13 September 2019 (ASB) and 30 September 2019 (IPSASB).
- Stakeholder engagements will be conducted in July and August 2019.
- Comment letter will be submitted to IPSASB by 30 September 2019.



THANK YOU

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