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TO:	**MEMBERS OF THE TECHNICAL COMMITTEE**
FROM:	**NABEELA IMAM SHAH**
SUBJECT:	**MEASUREMENT**
DATE:	**20 OCTOBER 2025**
REF:	**ATTACHMENT 3(a)**

BACKGROUND

1. Research on the measurement project to understand the local measurement landscape was conducted in 2024. The Board assessed the results and concluded to use the IPSAS *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSAS Conceptual Framework*)* and IPSAS 46, *Measurement* as a starting point for the amendments to the *Conceptual Framework for General Purpose Financial Reporting* (Conceptual Framework) and to develop a Standard of GRAP on *Measurement*.

2. The amendments to the Conceptual Framework will be exposed for comment first, whereafter the development of the Standard of GRAP on *Measurement* will follow*.* The project brief is included as attachment 3(b) for information purposes.

OBJECTIVE

3. The purpose of this memorandum is for the Technical Committee to consider the Invitation to Comment (ITC) and the proposed Exposure Draft (ED) on the amendments to Chapter 7 on *Measurement of Assets and Liabilities* in the Conceptual Framework, for recommendation to the Board. This is included as attachment 3(c).

DEVELOPING THE EXPOSURE DRAFT

4. The amendments to the Conceptual Framework align with IPSAS, with minor differences highlighted under "Matters for Discussion" below. Appendix A is provided for information purposes and includes a summary of the main changes, as well as a comparison to the current principles. This was previously presented to the Technical Committee and Board. For more detail on the IPSAS principles, access a presentation on the ASB website and a recording on the ASB's YouTube channel.

5. Two project group meetings (one for preparers of financial statements and the other for auditors, consultants and professional bodies) were held during September 2025 to consider the ITC and the ED*.* Stakeholders with the necessary skills and knowledge

were invited to the project group meetings. They included professional valuers who formed part of the preparers of financial statements project group. A high level education session on the proposed principles and a comparison to the current principles was provided to the project groups. The minutes of the project group meetings are included as attachments 3(d) and 3(e). Project group members recommended the proposed ITC and ED to the Technical Committee for its consideration.

MATTERS FOR DISCUSSION

Minor differences between the ED and the IPSAS Conceptual Framework

6. The following changes were made to the ED compared to the IPSAS Conceptual Framework, to enhance clarity of the text:

Paragraphs 7.4A and 7.4B

7. The IPSAS Conceptual Framework contains the following highlighted text:

Initial Measurement

7.5 Initial measurement for an asset is at transaction price plus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration given to acquire, construct or develop an asset. Transaction costs for assets are incremental costs that are directly attributable to the acquisition, construction, or development, of an asset and would not have been incurred if the entity had not acquired, constructed, or developed the asset. Transaction price plus transaction costs is the historical cost for an asset.

7.6 Initial measurement for a liability is at transaction price minus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration received to assume an obligation. Transaction costs for liabilities are incremental costs that are directly attributable to the incurrence of a liability and would not have been incurred if the entity had not incurred the liability. Transaction price minus transaction costs is the historical cost for a liability.

8. The highlighted text was excluded from the ED because the reference to “historical cost” could cause confusion, as historical cost is a measurement basis that is dealt with separately in subsequent measurement. Furthermore, individual Standards may have specific initial measurement requirements that differ from historical cost, for example, financial instruments are initially measured at fair value and the treatment of transaction costs depends on the subsequent measurement of the instrument.

9. The Secretariat asked the IPSASB staff for the rational for including the reference to “historical cost”. The staff noted that the sentences convey that transaction price plus/minus transaction costs become the historical cost of an asset or liability. While they did not identify major issues in interpreting the sentences, they did not foresee any issues with removing them.

Paragraph 7.4C

10. Reference is made to deemed cost in the IPSAS Conceptual Framework, but there is no definition or explanation of the term. This is contained in IPSAS 46.

11. The project group indicated that it would be useful if the term is defined or explained in the ED as there may be confusion about what it represents and whether it is another type of measurement basis. A short explanation of deemed cost was added to the end of paragraph 7.4C. The term will be explained in more detail when developing the Standard of GRAP on *Measurement,* in line with IPSAS 46.

Paragraph 7.6

12. The corresponding IPSAS paragraph refers to "financial reports", while paragraph 7.6 refers to "general purpose financial reports". The additional text enhances the consistent use of terminology in the ED.

Paragraph 7.15

13. The corresponding IPSAS Conceptual Framework paragraph refers to the term "recoverable amount". This term has a certain understanding in GRAP 26 on *Impairment of Cash-generating Assets* and the project group questioned whether the paragraph applies only to cash-generating assets.

14. As the paragraph can be applied more broadly, it is proposed to add the term "recoverable service amount" to make it clear that the paragraph can also apply to non-cash-generating assets.

Paragraph 7.34

15. The corresponding IPSAS Conceptual Framework paragraph caused confusion to project group members as there seemed to be an inconsistency in the first and last sentences of the paragraph. The first sentence in the paragraph refers to an asset's ability to generate economic benefits when assessing its financial capacity (in addition to the amount that would be received on sale), but the last sentence excludes an asset's ability to generate economic benefits other than through sale.

16. The ED proposes to change the last sentence of paragraph 7.34 to an example, so that it does not seem incomplete in its considerations of an asset's financial capacity.

Value in use

17. In the IPSASB's recent project titled *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB replaced the term value in use with current operational value (COV) throughout IPSAS 21, *Impairment of Non-cash-generating Assets*. Consequential amendments were made to the IPSAS Conceptual Framework to remove the applicability of value in use to non-cash-generating assets. These amendments are not included in the ED.

18. Paragraphs 7.57A – 7.57F of the ED indicates that value in use is applicable to non-cash-generating assets. As the Secretariat has not yet developed the Standard of GRAP on *Measurement,* it is proposed to keep references to non-cash-generating assets under the application of value in use. Once the applicability of COV is assessed and consulted on locally, amendments to value in use in the Conceptual Framework can be made, if stakeholders agree that the term value in use should be replaced with COV.

ACTIONS REQUESTED #1

The Technical Committee is requested to:

a) CONSIDER the matters for discussion;

b) REVIEW the proposed ED and ITC;

c) CONSIDER the appropriateness of the Specific Matters for Comment in the ITC; and

d) if appropriate, RECOMMEND the proposed ED and ITC to the Board for approval.

NEXT STEPS

19. The Board will consider the proposed ED and ITC at the November 2025 meeting for approval.
20. The Secretariat will begin the public consultation process once approved.

SUMMARY OF PROPOSED AMENDMENTS

Initial measurement

The current Conceptual Framework does not contain guidance on initial measurement.

The proposed amendments include that assets are measured initially at their transaction price plus transaction costs and liabilities are measured initially at their transaction price minus transaction costs, unless:

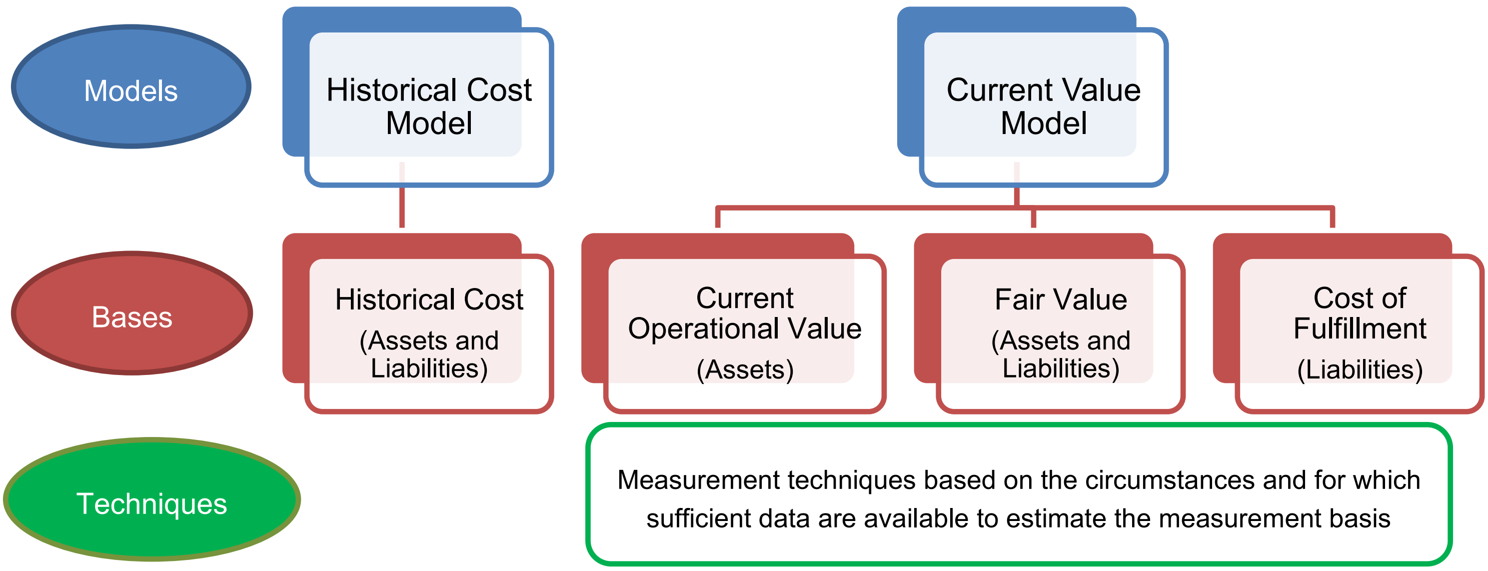
- there is no reliable transaction price data available; or
- there is another more representationally faithful measurement basis.

Where there is no transaction price data available or if the transaction price does not faithfully represent an asset or liability, deemed cost is used.

Subsequent measurement

The current Conceptual Framework contains guidance on measurement bases while the proposed amendments introduce two levels of measurement in addition to measurement bases. They are: measurement models and measurement techniques.

The relationship between the three levels of measurement is as follows:



Measurement models are the broad approaches for measuring assets and liabilities in the financial statements.

Measurement bases are the specific ways of measuring assets and liabilities under the measurement model selected.

Measurement techniques are the methods to estimate the amount at which assets and liabilities are presented under the selected measurement basis. Guidance on measurement techniques is contained in IPSAS 46 – this will be considered when developing the Standard of GRAP on *Measurement.*

The proposed changes to the measurement bases for assets and liabilities in the Conceptual Framework are indicated in the table below:

Current Conceptual Framework	**Summary of changes**	**Proposed Conceptual Framework**
Historical cost Consideration given to acquire or develop an asset or the consideration received to assume an obligation, which is the cash or cash equivalents or the value of the other consideration given or received, at the time of the acquisition or development of the asset or at the time the liability is incurred.	1. Measurement basis for assets and liabilities retained. 2. Inclusion of transaction costs in definition.	Historical cost Consideration given to acquire, construct or develop an asset plus transaction costs, or the consideration received to assume an obligation minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.
Market value Amount for which an asset could be exchanged or a liability could be settled between knowledgeable willing parties in an arm's length transaction.	1. Measurement basis for assets and liabilities replaced. 2. Fair value definition is consistent with IFRS 13 *Fair Value.* 3. A current value measurement used when assets or liabilities are held for their financial capacity.	Fair value 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.
Replacement cost Most economic cost required 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.	1. Measurement basis for assets replaced. 2. A current value measurement used when assets are held for their operational capacity.	Current operational value Amount the entity would pay for the remaining service potential of an asset at the measurement date.
Net selling price Amount that the entity can obtain from sale of the	1. Measurement basis for assets deleted as it has limited information value.	N/A

asset, after deducting the costs of sale.	2. Fair value is more appropriate for the determination of the recoverable amount of an asset, as it generally meets the qualitative characteristics of financial reporting better than net selling price.	
<u>Value in use</u> Present value 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.	1. Measurement basis for assets deleted.	Value in use is explained rather than retained as a measurement basis.
<u>Cost of fulfilment</u> Costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.	1. Measurement basis for liabilities retained. 2. No changes in definition.	<u>Cost of fulfilment</u> Cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.
<u>Cost of release</u> Amount of an immediate exit from the obligation.	1. Measurement basis for liabilities deleted as there are limited circumstances in which it may apply.	N/A
<u>Assumption price</u> Amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.	1. Measurement basis for liabilities deleted as there are limited circumstances in which it may apply. 2. Where public sector entities would accept a monetary amount for assuming a liability, fair value is likely to be more appropriate.	N/A

The most significant changes in the table above are to the market value and replacement cost measurement bases which are replaced by the fair value and current operational value (COV) measurement bases, respectively. A comparison of the measurement features of the current and proposed bases is shown in more detail below:

Measurement feature	**Market value**	**Fair value**
Entity-specific or Non-entity-specific value	Non-entity-specific value in an open, active and orderly market. Entity-specific or non-entity-specific value in an inactive market.	Non-entity-specific value
Entry or Exit value	Entry or exit value in an open, active and orderly market. Exit value in an inactive market.	Exit value
Cost of services	Allocation of the cost of assets/liabilities is based on current market prices to reflect their consumption in the current reporting period.	Reflects the asset's ability to generate economic benefits and the price expected to be received on sale. Allocation of the cost of liabilities is based on current prices to reflect their consumption in the current reporting period.
Financial capacity or Operational capacity	Appropriate for assets/liabilities held for their financial capacity (the capacity of the entity to fund its activities).	Appropriate for assets/liabilities held for their financial capacity (the capacity of the entity to fund its activities). Value of the asset represents its highest and best use which makes it inappropriate for assets primarily held for operational capacity/to deliver services.

Measurement feature	**Replacement cost**	**COV**
Entity-specific or Non-entity-specific value	Entity-specific value	Entity-specific value
Entry or Exit value	Entry value	Entry value
Cost of services	The cost of consuming an asset is equivalent to the amount of the sacrifice of service potential incurred by that use.	Amount of assets consumed is related to the value of the assets at the time they are consumed reported in their current terms.

Financial capacity or Operational capacity	Appropriate for assets held for their operational capacity (the capacity of the entity to provide services). Provides a measure of the resources available to provide services in future periods, as it is focused on the current value of assets and their service potential to the entity.	Appropriate for assets held for their operational capacity (the capacity of the entity to provide services). Provides a measure of the resources available to provide services in future periods based on an entity's current policy, as it is focused on the current value of assets and their remaining service potential to the entity. Reflects the asset's existing use rather than alternative use and therefore assumes that an asset will continue to be used for service delivery rather than being sold.

Although the measurement basis "replacement cost" will be replaced in the Conceptual Framework, the measurement technique called the "cost approach" will be applicable under the COV measurement basis in the proposed Standard of GRAP on *Measurement.* This technique may have similar features to the depreciated replacement cost approach used in the current GRAP suite of Standards.