



Responses due by xx

ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT OF THE PROPOSED AMENDMENTS TO CHAPTER 7 OF THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING – LIMITED SCOPE AMENDMENTS

ED XX

Issued by the
Accounting Standards Board

December 2025



ED **XX**

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed *Amendments to Chapter 7 on Measurement of assets and liabilities in financial statements of the Conceptual Framework for General Purpose Financial Reporting – Limited Scope Amendments* (ED **XX**) to enable the Board to develop guidance on the measurement of assets and liabilities, as outlined in this document.

The proposals in this Exposure Draft may be modified in the final documents in the light of comment received, before being issued.

Comment should be submitted in writing so as to be received by **xx**. E-mail responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the amendments to the *Conceptual Framework for General Purpose Financial Reporting* are issued.

Comment should be addressed to:

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0002

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Background and purpose of this Exposure Draft

Research on the measurement project commenced in 2024 to understand the local measurement landscape. The Board concluded that using the IPSAS principles on measurement for the amendments to the *Conceptual Framework for General Purpose Financial Reporting* (Conceptual Framework) meets stakeholders' needs. The purpose of this Exposure Draft is to seek comment on the amendments to Chapter 7 on "*Measurement of assets and liabilities in financial statements*" in the Conceptual Framework.

A Standard of GRAP on *Measurement* will be developed once the amendments to the Conceptual Framework are complete. The Conceptual Framework lays the foundational principles that the Board uses to develop the measurement requirements in the individual Standards of GRAP. These measurement requirements will be developed for each individual Standard's specific purpose and may not use the same concepts as explained in the Conceptual Framework.

Summary of changes

The sections below highlight the main proposed changes. These proposals are based on the IPSAS *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. For more detail on the IPSAS principles, access a presentation on the [ASB website](#) and a recording on the [ASB's YouTube channel](#).

Initial measurement

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

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

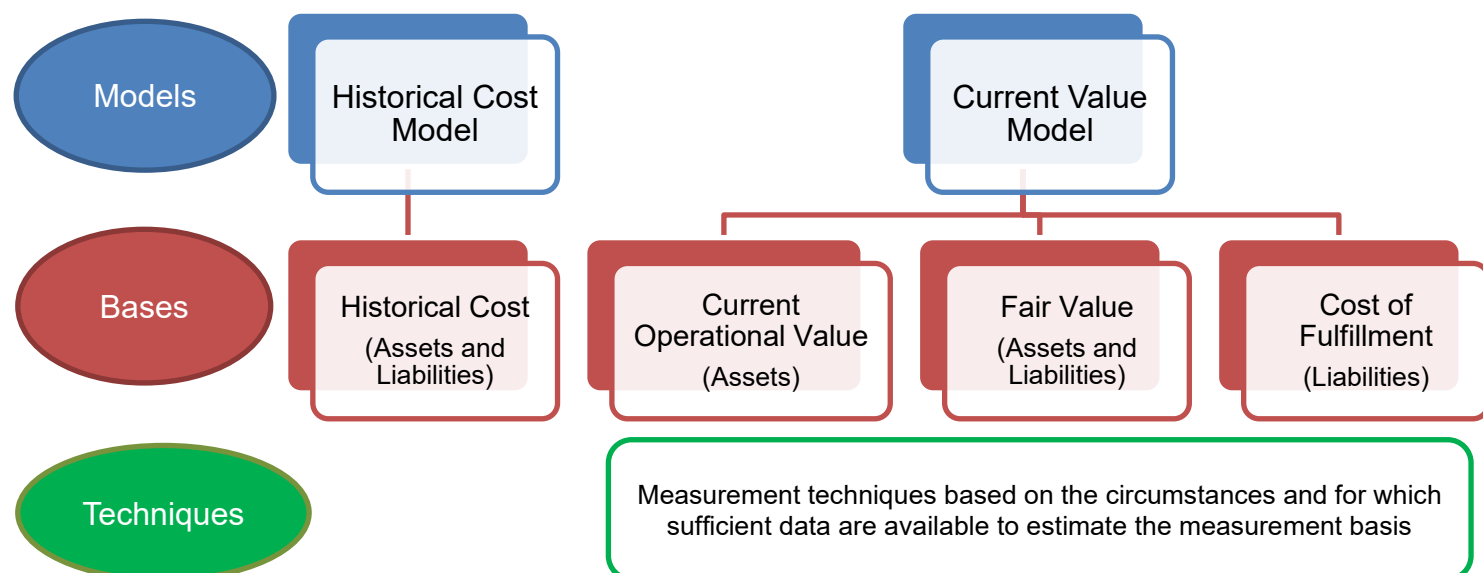
- there is no reliable transaction price data available; or
- there is another more representationally faithful measurement basis.

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.

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
<u>Historical cost</u> 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	1. Measurement basis for assets and liabilities retained. 2. Inclusion of transaction costs in definition.	<u>Historical cost</u> 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

acquisition or development of the asset or at the time the liability is incurred.		developed, or the liability is incurred.
<u>Market value</u> 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 <i>Fair Value</i>. 3. A current value measurement used when assets or liabilities are held for their financial capacity.	<u>Fair value</u> 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.
<u>Replacement cost</u> 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.	<u>Current operational value</u> Amount the entity would pay for the remaining service potential of an asset at the measurement date.
<u>Net selling price</u> Amount that the entity can obtain from sale of the asset, after deducting the costs of sale.	1. Measurement basis for assets deleted as it has limited information value. 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.	N/A
<u>Value in use</u> Present value of the asset's remaining service potential	1. Measurement basis for assets deleted.	Value in use is explained rather than retained as a measurement basis.

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.		
<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

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting.

Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft.

Request for comment

Comment on this Exposure Draft is invited by **xx**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to

supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for the Board accepting or rejecting significant comment will be published on the ASB website.

Specific matters for comment

Specific matter for comment 1

Fair value is proposed to replace market value as a measurement basis for assets and liabilities in the Conceptual Framework.

- a) Are the conceptual principles on fair value understandable? If not, why not?
- b) Do you agree that the fair value measure provides useful information when measuring assets held for their financial capacity? Please explain your response.

Specific matter for comment 2

Current operational value (COV) is a current value measurement basis proposed in the Conceptual Framework for assets held for their operational capacity. COV is defined as the amount an entity would pay for the remaining service potential of an asset at the measurement date.

- a) Are the proposed principles clear on when to apply COV? If not, please provide your reasons.
- b) Do you agree that the COV measure provides useful information when measuring assets held for their operational capacity? Please explain your response.
- c) Do you foresee that COV will assist in measuring assets held for service delivery? If not, why not?

Specific matter for comment 3

The Standard of GRAP on *Measurement* will be developed based on the measurement principles proposed in this Exposure Draft. Do you foresee any issues with the interpretation and application of the measurement principles that the Board should consider in developing the Standard of GRAP on *Measurement*?

General matters for comment

Comment on any other matter contained in this Exposure Draft would be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.

PROPOSED AMENDMENTS TO CHAPTER 7 OF THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING – LIMITED SCOPE AMENDMENTS

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CHAPTER 7: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

Amended text is shown with new text underlined and deleted text struck through.

Introduction

- 7.1 This Chapter identifies the measurement concepts that guide the Board in the selection of the most commonly used measurement bases for Standards of GRAP and for preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in Standards of GRAP.

The objective of measurement

- 7.2 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.

- 7.3 The selection of ~~a~~ measurement ~~basis~~ bases for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:

- the cost of services provided in the period in historical or current terms;
- operational capacity — the capacity of the entity to support the provision of services in future periods through physical and other resources; and
- financial capacity — the capacity of the entity to fund its activities.

- 7.4 The selection of ~~a~~ measurement ~~basis~~ bases also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports. The following subsections provide guidance on measurement at recognition (initial measurement) and measurement subsequent to recognition (subsequent measurement).

Initial measurement

- 7.4A 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.

- 7.4B 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.

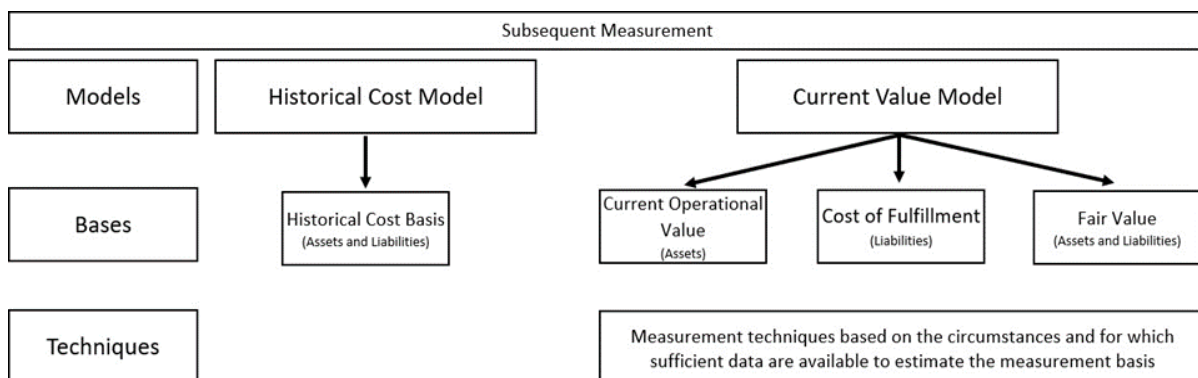
7.4C For both assets and liabilities, where there are no transaction price data available or if the transaction price does not faithfully present relevant information about the asset or liability of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes, a deemed cost is used. Deemed cost is the amount used as a surrogate for transaction price at the measurement date. A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement.

Subsequent measurement

7.4D Subsequent to initial measurement there are three levels of measurement:

- measurement models;
- measurement bases; and
- measurement techniques.

Diagram 1: The subsequent measurement framework and the relationship between the three levels



7.4E **Measurement models** are the broad approaches for measuring assets and liabilities for inclusion in the financial statements.

7.4F Under the historical cost model, assets and liabilities are measured at historically-based amounts. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous for liabilities.

7.4G Under the current value model, assets and liabilities are measured using information

updated to reflect price changes to the measurement date.

7.4H **Measurement bases** are specific ways of measuring assets and liabilities under the selected measurement model. Measurement bases provide information that best meets the qualitative characteristics while taking into account the constraints on information in financial reports.

7.4I Subsequent measurement may be either on the historical cost measurement basis or on one of the measurement bases under the current value model (see paragraph 7.5).

7.4J **Measurement techniques** are methods to estimate the amount at which an asset or liability is measured under the selected measurement basis. The selection of a measurement technique depends on factors such as the characteristics of an asset or a liability and the availability of observable data. Guidance on measurement techniques is provided at the standards level.

The selection of measurement models and ~~M~~measurement bases and their selection

7.5 It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a ~~C~~conceptual Framework-level for all circumstances. Therefore, the Conceptual Framework does not propose a single measurement model or measurement basis (or combination of bases) for all transactions, events and conditions. It provides guidance on the selection of a measurement model and a measurement basis for assets and liabilities from those bases most commonly used in order to meet the measurement objective. It may be necessary to select measurement bases from different measurement models in order to meet the measurement objective.

7.6 The following measurement bases for assets are identified and discussed in terms of the information they provide about (a) the cost of services delivered by an entity, (b) the ~~operating~~ operational capacity of an entity and the financial capacity of an entity, and (c) the extent to which they provide information that meets the qualitative characteristics while taking into account the constraints on information in general purpose financial reports:

~~Historical cost measurement~~

- historical cost;
- current operational value; and

~~Current value measurements~~

- ~~market fair value;~~
- ~~replacement cost;~~
- ~~net selling price; and~~

- ~~value in use.~~

Table 1 summarises these measurement bases in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific.¹

Table 1: Summary of measurement bases for assets

Measurement Basis	Entry or Exit	Observable or Unobservable in a Market	Entity or Non-entity Specific
Historical cost	Entry	Generally observable	Entity-specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity-specific
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique
Replacement cost	Entry	Observable	Entity-specific
Net selling price	Exit	Observable	Entity-specific
Value in use	Exit ²	Unobservable	Entity-specific

7.6A Value in use is used solely for the impairment of assets and therefore is discussed separately in paragraphs 7.57A to 7.57F.

7.7 The following measurement bases for liabilities are identified and discussed in terms of (a) the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity; and (b) the extent to which they provide information that meets the qualitative characteristics:

Historical cost measurement

- historical cost;

Current value measurements

- cost of fulfilment; and
- market fair value;;
- ~~cost of release; and~~

¹ In some cases a judgement has been made in classifying a particular measurement basis as observable or unobservable in a market and/or as entity or non-entity specific.

² As pointed out in paragraph 7.67, for non-cash generating assets the calculation of value in use may require the use of replacement cost as surrogate.

●——assumption price.

Table 2 summarises these measurement bases in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific.

Table 2: Summary of measurement bases for liabilities

Measurement Basis	Entry or Exit	Observable or Unobservable in a Market	Entity or Non-entity Specific
Historical cost	Entry	Generally observable	Entity-specific
Cost of fulfilment	Exit	Unobservable	Entity-specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity specific
Market value in inactive market	Exit	Dependent——on valuation technique	Dependent——on valuation technique
Cost of release	Exit	Observable	Entity-specific
Assumption price	Entry	Observable	Entity-specific

7.7A The next two sub-sections discuss classifying measurement bases as entity or non-entity specific and entry-based or exit-based.

Entity-specific and non-entity specific measures

7.7B Measurement bases may be classified according to whether they are “entity-specific” or “non-entity-specific”. Measurement bases that are entity-specific reflect the economic, legal and other constraints that affect the possible uses of an asset or the fulfillment of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks to which other entities are not exposed. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measurement basis is taken by reference to the measurement objective and the qualitative characteristics. Tables 1 and 2 classify the measurement bases for assets and liabilities as entity-specific or non-entity-specific.

Table 1: Classification of Measurement Bases for Assets as Entity-Specific or Non-Entity-Specific

<u>Measurement Basis</u>	<u>Entity-Specific or Non-Entity-Specific</u>
<u>Historical cost</u>	<u>Entity-specific</u>
<u>Current operational value</u>	<u>Entity-specific</u>
<u>Fair value</u>	<u>Non-entity-specific</u>

Table 2: Classification of Measurement Bases for Liabilities as Entity-Specific or Non-Entity Specific

<u>Measurement Basis</u>	<u>Entity-Specific or Non-Entity-Specific</u>
<u>Historical cost</u>	<u>Entity-specific</u>
<u>Cost of fulfilment</u>	<u>Entity-specific</u>
<u>Fair value</u>	<u>Non-entity-specific</u>

Entry and exit values

7.8 Measurement bases may provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction or development purchase. ~~Historical cost and replacement cost are entry values.~~ Exit values are based on ~~reflect~~ the economic benefits from sale. Current operational value and historical cost are entity specific measures for assets and are entry values. Fair value is a market-based, non-entity specific measure and is an exit value. ~~An exit value also reflects the amount that will be derived from use of the asset. In a diversified economy entry and exit prices differ as entities typically:~~

- ~~acquire assets tailored to the entity's particular operating requirements for which other market participants would be unwilling to pay a similar price; and~~
- ~~incur transaction costs on acquisition.~~

7.9 ~~Measurement bases for liabilities, may also be classified in terms of whether they are entry or exit values. Entry values relate to the transaction or event under which an obligation is incurred received or the amount that an entity would accept to assume a liability. Exit values reflect the amount required to fulfil or transfer an obligation or the amount required to release the entity from an obligation. For example, historical cost is an entity specific measure for liabilities and is an entry value. Cost of fulfillment is an entity specific measure and fair value is a market-based, non-entity specific measure; both measures are exit values.~~

7.9A Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases normally include transaction costs on the acquisition, construction or

development of an asset and on the incurrence of a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or fulfillment or transfer of a liability.

Observable and unobservable measures

7.10 ~~[Deleted]~~ Certain measures may be classified according to whether they are observable in an open, active and orderly market.³ Measures that are observable in a market are likely to be more understandable and verifiable than measures that are not observable. They may also be more faithfully representative of the phenomena they are measuring.

Entity-specific and non-entity specific measures

7.11 ~~Relocated to paragraph 7.7B~~ Measures may also be classified according to whether they are “entity specific” or “non-entity specific”. Measurement bases that are entity-specific reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement of a liability by an entity. Entity specific measures may reflect economic opportunities that are not available to other entities and risks that are not experienced by other entities. Non-entity specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measure is taken by reference to the measurement objective and the qualitative characteristics.

Level of aggregation or disaggregation for measurement

7.11A In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics, it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate, consideration is given to:

- guidance on unit of account in Chapter 6;
- the materiality of aggregation or disaggregation; and
- the costs of aggregation or disaggregation compared with the benefits in terms of the extent to which the aggregation or disaggregation meets the objectives of financial reporting.

Measurement bases for assets

7.11B This section discusses the following measurement bases for assets:

³ The term “open, active and orderly markets” was developed by Dr. J. Alex Milburn. For example, see *Toward a Measurement Framework for Profit-oriented Entities*, published by the Canadian Institute of Chartered Accountants in 2012.

- historical cost;
- current operational value; and
- fair value.

Historical cost

7.12 Historical cost for an asset is:

The consideration given to acquire, construct 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, construction or development plus transaction costs.

7.13 Consideration is the cash or cash equivalents or the value of other resources given. Historical cost is an ~~entry,~~ entity-specific measurement basis reflecting the costs incurred in acquiring, constructing or developing an asset. ~~value.~~⁴ ~~Under the historical cost model assets are initially reported at the cost incurred on their acquisition.~~ Subsequent to initial measurement recognition, ~~this~~ the historical cost for certain assets may be allocated as an expense to reporting periods in the form of depreciation or amortisation. ~~for certain assets,~~ Depreciation and amortisation represent the consumption of as the service potential or ability to generate economic benefits provided by such assets ~~are consumed~~ over their useful lives. Consistent with the historical cost model, ~~Following initial measurement recognition,~~ the measurement carrying amount of an asset is not changed to reflect changes in prices, except where related to impairment (see paragraph 7.15) ~~or increases in the value of the asset.~~

7.14 ~~[Deleted] Where the time value of an asset is material — for example, where the length of time before the asset is realised is significant — the amount of the future receipt is discounted so that, at the time an asset is first recognised, it represents the value of the amount received. The difference between the amount of the future receipt and the present value of the asset is amortised over the life of the asset, so that the asset is stated at the amount of the required receipt when it is realised.~~

7.15 Under the historical cost model the amount of an asset may be reduced by recognising impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset have diminished due to changes in economic or other conditions, ~~as~~ which is distinct to their ~~from the consumption of an asset.~~ This involves an assessments of the ~~recoverability~~ recoverable amount or the recoverable service amount of an asset. Depreciation, amortisation and impairment may also be relevant to measurement bases under the current value model (see paragraph 7.22). Conversely, the amount of an asset may

⁴ ~~The term "historical cost" may also be referred to as the "cost model" or generically as "cost-based measures."~~
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be increased to reflect the cost of additions and enhancements ~~(excluding price increases for unimproved assets)~~ or other events, such as the accrual of interest on a financial asset.

Costs of services

- 7.16 Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire, construct or develop assets consumed in the provision of services. Historical cost generally ~~provides a direct link to the~~ is based on the transactions actually undertaken entered into by the entity. ~~Because As~~ the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the current cost of assets when the assets are consumed. As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition, construction or development are significant. Where budgets are prepared on the historical cost basis, historical cost information demonstrates the extent to which the budget has been executed.

Operational capacity

- 7.17 If an asset has been acquired, constructed or developed in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their acquisition cost. At the time an asset is ~~purchased~~ acquired, constructed or developed, it can be assumed that the value to the entity of its service potential is at least equal as great as to the cost of its acquisition, construction or development. ~~purchase.~~⁵ When depreciation or amortisation is recognised it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services are at least equal to as great as the amount at which they are stated. ~~Increases in the value of an asset are not reflected under the historical cost model. If~~ Where an asset has been acquired, constructed or developed in a non-exchange transaction, the transaction price will not provide information on operational operating capacity that meets the qualitative characteristics while taking into account the constraints on information in financial reports (also see paragraph 7.4C).

Financial capacity

- 7.18 The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost, less depreciation or amortisation and any accumulated impairment losses can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be derived from

⁵ ~~Where this is not the case the initial historical cost measurement will be reduced by the amount of the impairment.~~
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use of the asset and received on sale of an asset, and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current-exit values.

Application of the qualitative characteristics

- 7.19 Paragraphs 7.16 to 7.18 explain the areas where historical cost provides relevant information in terms of its confirmatory or predictive value. Application of historical cost is often straightforward, because transaction information is usually readily available. As a result, amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent — that is, the cost to acquire, construct or develop an asset based on actual transactions. ~~Estimates of depreciation and impairment used in the historical cost model, particularly for non-cash-generating assets, can affect representational faithfulness. Because~~ As application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are generally verifiable, understandable and can be prepared on a timely basis.
- 7.20 Historical cost information is comparable to the extent that assets have the same or similar acquisition, construction or development dates. ~~Because~~ Historical cost does not reflect the impact of price changes, so it is not possible to compare meaningfully the amounts of assets that were acquired, constructed or developed at different times when prices differed in a meaningful way.
- 7.21 In certain circumstances the application of historical cost necessitates the use of allocations — for example where:
- several assets are acquired in a single transaction;
 - assets are constructed or developed by the entity itself and overheads and other costs have to be attributed; and
 - the use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held.

To the extent that such allocations are arbitrary, they reduce the extent to which the resulting measurement achieves the qualitative characteristics.

Measurement bases for assets under the ~~C~~current value measurements model

- 7.22 Measurements under the ~~C~~current value model measurements reflect the economic environment prevailing at the reporting date. Depreciation, amortisation and impairment, which are discussed in the context of the historical cost measurement model in paragraphs 7.13 and 7.15, are also relevant to current value measurement bases in certain circumstances. Additions and enhancements may affect measurements under current operational value and fair value.

7.22A Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgement whether an asset is primarily held for operational capacity or financial capacity and selects the current operational value measurement basis, or the fair value measurement basis based on that analysis. In making such a judgement an entity has regard to the appropriate unit of account. Guidance on unit of account is provided in Chapter 6.

7.23 ~~[Deleted] There are four current value measurement bases for assets:~~

- ~~• market value;~~
- ~~• replacement cost;~~
- ~~• net selling price; and~~
- ~~• value in use.~~

Current operational value

7.23A Current operational value is:

The amount the entity would pay for the remaining service potential of an asset at the measurement date.

7.23B Current operational value presents an entity-specific measurement of an existing asset held for its operational capacity. Current operational value reflects:

- The amount the entity would pay for the remaining service potential of the asset in the least costly manner.
- The remaining service potential of the asset taking into account the current condition of the asset.
- The asset's existing use and location.

7.23C An asset supports an entity delivering services in its existing use. 'Existing use' is the way an existing asset is used, rather than an alternative use, and generally reflects the policy objectives of the entity operating the asset. Current operational value therefore assumes that an asset will continue to be used for service delivery rather than being sold.

Costs of services

7.23D The cost of services is reported in current terms when based on current operational value. Thus, the amount of assets consumed is related to the value of the assets at the time they are consumed - and not, as with historical cost, at the time they were acquired, constructed, or developed. This provides a basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period - which are generally transactions of the current period and measured in

current prices - and for assessing whether resources have been used economically and efficiently. It may also provide a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition, construction, or development dates and for assessing the cost of providing services in the future and future resource needs. This is because future costs are more likely to resemble current costs than those incurred in the past when prices were different.

Operational capacity

7.23E As indicated in paragraph 7.23D, current operational value provides a measure of the resources available to provide services in future periods based on current policy, as it is focused on the current value of assets and their remaining service potential to the entity.

Financial capacity

7.23F Current operational value does not provide information on an asset's ability to generate economic benefits or the amounts that would be received on its sale. It therefore may not facilitate an assessment of financial capacity.

Application of the qualitative characteristics

7.23G Current operational value focuses on the amount the entity would pay for the remaining service potential of an asset which supports the achievement of an entity's policy objectives. Current operational value therefore provides information that is both relevant and faithfully representative.

7.23H Current operational value information is comparable within an entity, as assets that provide equivalent service potential are stated at similar amounts, regardless of when those assets were acquired, constructed, or developed. Different entities may report similar assets at different amounts because current operational value is an entity-specific measure that reflects the opportunities available to the entity to obtain an asset to achieve an entity's policy objectives. These opportunities may be the same or similar for different entities. Where they are different, the economic advantage of an entity that is able to acquire, construct or develop assets at lower cost is reported in financial statements through lower asset values and a lower cost of services. This reinforces the ability of current operational value to provide relevant and faithfully representative information. The extent to which current operational value measures meet the qualitative characteristics of timeliness, understandability and verifiability depends on the nature of the asset and the estimation techniques used.

Fair Market value

7.24 ~~Market~~ Fair value for an assets is:

The price that would be received to sell amount for which an asset in an orderly transaction between market participants at the measurement date could be exchanged between knowledgeable, willing parties in an arm's length transaction.

7.25 ~~[Deleted] At acquisition market value and historical cost will be the same, if transaction costs are ignored and the transaction is an exchange transaction. The extent to which market value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded. Market value is particularly appropriate where it is judged that the difference between entry and exit values is unlikely to be significant or the asset is being held with a view to sale.~~

7.25A Fair value is appropriate where the asset is being held primarily for its ability to generate economic benefits or with a view to sale. The extent to which fair value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded.

7.26 In principle, fair value measurements ~~market values~~ provide useful information because they fairly reflect the value of the asset to the entity. In an ~~open, active and~~ orderly market (see paragraph 7.28), the asset cannot be ~~valued at~~ worth less than ~~market fair value,~~ as, disregarding transactions costs, the entity can obtain that amount by selling the asset, ~~and~~ The asset cannot be ~~worth~~ valued at more than ~~market fair value,~~ as the entity can obtain ~~equivalent service potential or the same~~ ability to generate economic benefits by purchasing the same or a similar asset in the market.

7.27 The usefulness of ~~market fair~~ values ~~is~~ may be more questionable when the assumption that markets are ~~open, active and~~ orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired and it is necessary to ~~determine whether an exit price or an entry price is the more useful measure.~~ ~~Exit-based market values are useful for assets that are held for trading, such as certain financial instruments, but may not be useful for specialised operational assets. Furthermore, while~~ Although the purchase of an asset provides evidence that the value of the asset to the entity is at least equal to as great as its purchase price at that time, operational factors may mean that the value to the entity may be greater. Hence ~~market fair~~ values may not reflect the value to the entity of the asset, represented by its operational capacity. Therefore, fair value may not be useful for operational assets that an entity intends to continue to use for service delivery.

~~Market values in open, active and e~~ Orderly markets

7.28 ~~Open, active and e~~Orderly markets have the following characteristics:

- there are no barriers that prevent the entity from transacting in the market;
- ~~they are active so~~ there is sufficient frequency and volume of transactions to provide price information; and
- ~~they are orderly, with~~ many well-informed buyers and sellers acting without compulsion, so there is assurance of “fairness” in determining current prices — including that prices do not represent distress sales.

An orderly market is one that is run in a reliable, secure, accurate and efficient manner. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies and securities where prices are publicly available. In practice few markets, if any, ~~markets~~ fully exhibit all of these characteristics, but some may approach an orderly market ~~as described~~.

~~Market Fair values where markets it cannot be assumed that markets are open, active and to be orderly~~

7.29 Markets for assets that are unique and rarely traded are unlikely to be ~~not open, active and orderly~~: any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. ~~In such circumstances~~ Where markets are not orderly, it is necessary to use an estimation a measurement technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. Such measurement techniques require inputs that are directly or indirectly observable, where possible, or unobservable where observable inputs cannot be identified.

7.29A Fair value permits a return on assets to be reported. However, public sector entities for which the Board develops and maintains standards do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidised terms. Consequently, there may be limited relevance in a reported return derived from fair value.

Costs of services

7.29B Fair value reflects the asset's ability to generate economic benefits and the price expected to be received on sale. Therefore, when an asset is primarily held for its operational capacity, fair value provides less useful information for the cost of services than current operational value, which can reflect the value of an asset in its existing use.

- 7.30 ~~[Deleted] Revenue from services reported in financial statements is measured on the basis of prices current in the reporting period. If assets used to provide services are measured at market value, the allocation of the cost of assets to reflect their consumption in the current reporting period is based on the current market value of the asset.~~
- 7.31 ~~Relocated to paragraph 7.29A. The use of market values permits a return on assets to be determined. However, public sector entities do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidised terms. Consequently there may be limited relevance in a reported return derived from exit-based market prices.~~
- 7.32 ~~[Deleted] As noted above, revenue from providing services reported in financial statements is measured on the basis of prices current in the reporting period. Thus the surplus or deficit for a period includes price movements that take place over the period during which assets and liabilities are held, and no profit or loss is reported on the sale of an asset. Where the asset is traded on an open, active and orderly market, the existence of the market provides assurance that the entity would be able to realise the market value (and no more) at the reporting date: it is therefore unnecessary to postpone recognition of changes in value until a surplus is realised on sale. However, where assets used to provide services are not traded on open, active and orderly markets, or a close approximation to such markets, the relevance of revenue and expense related to changes in market value is more questionable.~~

Operational capacity

- 7.33 ~~The usefulness of information on the market fair value of assets held to provide services is limited in future periods is useful if it reflects the value that the entity is capable of deriving from assets by using them in providing or delivering services. However, if fair an exit-based market value is significantly lower than historical cost, market fair value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity. — such a market Fair value is also likely to be less relevant than entry current operational value, — based current measures as the highest and best financial use principle that underpins fair value is inappropriate for assets primarily held for operational capacity.~~

Financial capacity

- 7.34 An assessment of financial capacity requires information on an asset's ability to generate economic benefits and the amount that would be received on sale of an asset. This information is provided by fair market value. Fair value is an appropriate measurement basis where, for example, assets are held for sale or where assets previously held for their operational capacity are surplus to operational requirements.

Application of the qualitative characteristics

- 7.35 Values determined in ~~open, active and~~ orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics — that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. ~~Under such market conditions entry and exit values can be assumed to be the same or very similar. Because it~~ As such information can be prepared available quickly, such information it is also likely to be timely.
- 7.36 The extent to which market fair values measurements meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, ~~exit-based market fair values are~~ is only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity.

Replacement cost

- 7.37 ~~[Deleted]~~ Replacement cost⁶ 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.~~

- 7.38 ~~[Deleted]~~ Replacement cost differs from market value because:

- ~~• in a public sector context it is explicitly an entry value that reflects the cost of replacing the service potential of an asset;~~
- ~~• it includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and~~
- ~~• it is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market. For example, the replacement cost of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually.~~

- 7.39 ~~[Deleted]~~ Because entities usually acquire their assets by the most economic means available, replacement cost reflects the procurement or construction process that an entity generally follows. Replacement cost reflects the replacement of service potential in the normal course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.

⁶ The full term is “optimised depreciated replacement cost” to denote that it refers to the replacement of the service potential embodied in an asset and not the asset itself (see paragraph 7.40). The term “replacement cost” is used for economy of expression in the Conceptual Framework.

- 7.40 ~~[Deleted]~~ Replacement cost is the cost to the entity of replacing an asset's service potential rather than determining the cost of acquiring an identical asset. Replacement cost adopts an optimised approach and differs from reproduction cost, which is the cost of acquiring an identical asset.⁷ Although in many cases the most economic replacement of the service potential will be by purchasing an asset that is similar to that which is controlled, replacement cost is based on an alternative asset if that alternative would provide the same service potential more cheaply. For financial reporting purposes, it is therefore necessary to reflect the difference in service potential between the existing and replacement asset.
- 7.41 ~~[Deleted]~~ The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service capacity to deal with contingencies. Therefore, the replacement cost of an asset reflects reductions in required service capacity. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 400 pupils would be adequate for current and reasonably foreseeable requirements, the replacement cost of the asset is that of a school for 400 pupils.
- 7.42 ~~[Deleted]~~ In some cases the value that will be derived from an asset will be greater than its replacement cost. However, it would not be appropriate to measure the asset at that value, as it includes benefits from future activities, rather than service potential at the reporting date. Replacement cost represents the highest potential value of an asset, as, by definition, the entity is able to secure equivalent service potential by incurring replacement cost.

Costs of services

- 7.43 ~~[Deleted]~~ Replacement cost provides a relevant measure of the cost of the provision of services. The cost of consuming an asset is equivalent to the amount of the sacrifice of service potential incurred by that use. That amount is its replacement cost — the entity is able to restore its position to that prevailing immediately before the consumption of the asset by an outlay equal to replacement cost.
- 7.44 ~~[Deleted]~~ The costs of services are reported in current terms when based on replacement cost. Thus, the amount of assets consumed is stated at the value of the assets at the time they are consumed — and not, as with historical cost, at the time they were acquired. This provides a valid basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period — which are generally transactions of the current period and measured in current prices — and for assessing whether resources have been used economically and efficiently. It also

⁷ There may be cases where replacement cost equates to reproduction cost. This is where the most economical way of replacing service potential is to reproduce the asset.

~~provides a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition dates, and for assessing the cost of providing services in the future and future resource needs, as future costs are more likely to resemble current costs than those incurred in the past, when prices were different (see also paragraph 7.48).~~

Operational capacity

- 7.45 ~~[Deleted] In principle, replacement cost provides a useful 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.~~

Financial capacity

- 7.46 ~~[Deleted] Replacement cost does not provide information on the amounts that would be received on the sale of assets. It therefore does not facilitate an assessment of financial capacity.~~

Application of the qualitative characteristics

- 7.47 ~~[Deleted] As noted above, replacement cost is relevant to assessments of the cost of services and operational capacity. It is not relevant to assessments of financial capacity. In some circumstances calculation of replacement cost is complex, and subjective judgements are required. These factors may reduce the representational faithfulness of replacement cost. In these circumstances the timeliness, comparability and verifiability of information prepared on a replacement cost basis may be affected, and replacement cost may be more costly than some alternatives. Replacement cost information may also not be straightforward to understand, particularly when that information reflects a reduction in required service capacity (see paragraph 7.41).~~
- 7.48 ~~[Deleted] Replacement cost information is comparable within an entity as assets that provide equivalent service potential are stated at similar amounts, regardless of when those assets were acquired. In principle different entities may report similar assets at different amounts, because replacement cost is an entity-specific measure that reflects the opportunities for replacement that are available to the entity. The opportunities for replacement may be the same or similar for different public sector entities. Where they are different, the economic advantage of an entity that is able to acquire assets more cheaply is reported in financial statements through lower asset values and a lower cost of services in order to be representationally faithful.~~

Net selling price

- 7.49 ~~[Deleted] Net selling price is:~~

~~*The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.*~~

- 7.50 ~~[Deleted]~~ Net selling price differs from market value in that it does not require an open, active and orderly market or the estimation of a price in such a market and that it includes the entity's costs of sale. Net selling price therefore reflects constraints on sale. It is entity specific.
- 7.51 ~~[Deleted]~~ The potential usefulness of measuring assets at net selling price is that an asset cannot be worth less to the entity than the amount it could obtain on sale of the asset. However, it is not appropriate as a measurement basis if the entity is able to use its resources more efficiently by employing the asset in another way, for example by using it in the delivery of services.
- 7.52 ~~[Deleted]~~ Net selling price is therefore useful where the most resource efficient course available to the entity is to sell the asset. This is the case where the asset cannot provide service potential or the ability to generate economic benefits at least as valuable as net selling price. Net selling price may provide useful information where an entity is contractually obligated to sell an asset at below market value. There may be cases where net selling price can indicate a development opportunity.

Costs of services

- 7.53 ~~[Deleted]~~ It is not appropriate to quantify the cost of the provision of services at net selling prices. Such an approach would involve the use of an exit value as the basis of the expense reported.

Operational capacity

- 7.54 ~~[Deleted]~~ Stating assets held for use in the provision of services at net selling price does not provide information useful to an assessment of operating capacity. Net selling price shows the amount that could be derived from an asset's sale, rather than the value of the service potential that could be derived from that asset.

Financial capacity

- 7.55 ~~[Deleted]~~ As noted above, an assessment of financial capacity requires information on the amount that would be received on sale of an asset. Such information is provided by the use of net selling price. However, such a measure is not relevant for assets that may yield more valuable service potential by continuing to use them to deliver services.

Application of the qualitative characteristics

- 7.56 ~~[Deleted]~~ As indicated in paragraph 7.52 net selling price provides relevant information only where the most resource efficient course available to the entity is to sell the asset. Assessments of net selling price may be made by reference to active markets where they exist. For major assets it may be possible and cost effective to obtain professional appraisals. Net selling price will generally provide understandable information.

7.57 ~~[Deleted] In most cases where net selling price is relevant, it will achieve the qualitative characteristics of faithful representation, verifiability, and timeliness.~~

Value in use

7.57A Value in use is applicable for assessments of impairment. Impairment testing involves determining whether the amount at which an asset is stated on the statement of financial position is recoverable.

7.57B Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its sale at the end of its useful life. This requires the discounting of cash flows to a present value.

7.57C Value in use of a non-cash-generating asset is the asset's remaining service potential at the measurement date. The estimation of service potential requires the use of techniques, which are dependent on the nature of the asset and, because of its applicability to impairment, the indicator of impairment.

7.57D Value in use for cash-generating assets is complex and subjective, as it requires the projection of cash flows from an entity perspective. Further complexity arises where assets are deployed in combination with other assets. In such cases, value in use can be estimated only by calculating the present value of the cash flows of a group of assets, rather than on an individual basis. Allocations are then made to individual assets. Such allocations may be arbitrary, thereby having an adverse impact on faithful representation.

7.57E Value in use for non-cash-generating assets is also complex, as it requires entity-specific estimates of an asset's remaining service potential.

7.57F Paragraph 7.22A discusses the situation where an asset is used for service provision and also generates economic benefits, noting that an entity that is using the current value model makes a judgement whether an asset is primarily held for operational capacity or financial capacity, and selects the current operational value measurement basis or the fair value measurement basis accordingly. This factor and the complexity and subjectivity discussed above mean that value in use in both a cash-generating and non-cash-generating context is likely to be applicable only to accounting for losses or reversals of losses related to impairment.

7.58 ~~[Deleted] 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.*~~

Suitability of value in use

7.59 ~~[Deleted] Value in use is an entity-specific value that reflects the amount that can be~~

~~derived from an asset through its operation and its disposal at the end of its useful life. As noted in paragraph 7.42, the value that will be derived from an asset is often greater than its replacement cost — it is also usually greater than its historical cost. Where this is the case, reporting an asset at its value in use is of limited usefulness, as by definition, the entity is able to secure equivalent service potential at replacement cost.~~

- 7.60 ~~[Deleted] Value in use is also not an appropriate measurement basis when net selling price is greater than value in use, as in this case the most resource-efficient use of the asset is to sell it, rather than continue to use it.~~
- 7.61 ~~[Deleted] Therefore, value in use is appropriate where it is less than replacement cost and greater than net selling price. This occurs where an asset is not worth replacing, but the value of its service potential or ability to generate economic benefits is greater than its net selling price. In such circumstances value in use represents the value of the asset to the entity.~~
- 7.62 ~~[Deleted] Value in use is an appropriate measurement basis for the assessment of certain impairments, because it is used in the determination of the recoverable amount for an asset or group of assets.~~

Costs of services, operational capacity, financial capacity

- 7.63 ~~[Deleted] Because of its potential complexity⁸, its limited applicability and the fact that its operationalisation in a public sector context for non-cash generating assets involves the use of replacement cost as a surrogate, value in use is generally inappropriate for determining the cost of services. Its usefulness to assessments of operational capacity is limited, and is only likely to be significant in the atypical circumstances where entities have a large number of assets that are not worth replacing, but their value in use is greater than their net selling price. This may be the case if, for example, an entity will discontinue provision of a service in the future, but the proceeds of immediate sale are less than the service potential embodied in the assets. Value in use does involve an estimate of the net amount that an entity will receive from disposal of the asset. However, its limited applicability reduces its relevance for assessments of financial capacity.~~

Application of the qualitative characteristics

- 7.64 ~~[Deleted] While value in use may be used in assessments of certain impairments its relevance for financial reporting purposes is limited to the circumstances outlined in paragraph 7.61.~~
- 7.65 ~~[Deleted] The extent to which value in use meets the other qualitative characteristics~~

⁸ See paragraph 7.66.
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~~depends on how it is determined. In some cases, an asset's value in use can be quantified by calculating the value that the entity will derive from the asset assuming its continued use. This may be based on the future cash inflows related to the asset, or on cost savings that will accrue to the entity through its control of the asset. The calculation of value in use takes into account the time value of money and, in principle, the risk of variations in the amount and timing of cash flows.~~

- 7.66 ~~[Deleted] The calculation of value in use can be complex. Assets that are employed in cash-generating activities often provide cash flows jointly with other assets. In such cases value in use can be estimated only by calculating the present value of the cash flows of a group of assets and then making an allocation to individual assets.~~
- 7.67 ~~[Deleted] In the public sector, most assets are held with the primary objective of contributing to the provision of services, rather than to the generation of a commercial return: such assets are referred to as "non-cash-generating assets". Because value in use is usually derived from expected cash flows, its operationalisation in such a context can be difficult. It may be inappropriate to calculate value in use on the basis of expected cash flows, because such a measure would not be faithfully representative of the value in use of such an asset to the entity. Therefore, it would be necessary to use replacement cost as a surrogate for financial reporting purposes.~~
- 7.68 ~~[Deleted] The method of determining value in use reduces its representational faithfulness in many cases. It also affects the timeliness, comparability, understandability and verifiability of information prepared on a value in use basis.~~

Measurement bases for liabilities

- 7.69 This section discusses the measurement bases for liabilities. This section does not repeat all the discussion in the section on assets. It considers the following measurement bases:

- historical cost;
- cost of fulfilment; and
- ~~market fair value;~~
- ~~cost of release; and~~
- ~~assumption price.~~

Historical cost

- 7.70 Historical cost for a liability is:

The consideration received to assume an obligation minus transaction costs, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

- 7.71 Consideration is the cash or cash equivalents, or the value of other consideration given. Under the historical cost model initial measures are ~~may be~~ adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of a discount or amortisation of a premium.
- 7.72 Where the time value of a liability is material — for example, where the length of time before settlement falls due is significant — the amount of the future payment is discounted so that, at the time a liability is initially measured ~~first recognised~~, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortised over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.
- 7.73 ~~The advantages and drawbacks of using the historical cost basis for liabilities are similar to those that apply in relation to assets.~~ Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or delict or civil damages. It is ~~also~~ unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

Cost of fulfilment

- 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 at the measurement date.*
- 7.75 Where the cost of fulfilment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfilment, which aims to reflect all those possible outcomes in an unbiased manner.
- 7.76 Where fulfilment requires work to be done — for example, where the liability is to rectify environmental damage — the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly ~~means~~ way of fulfilling the obligation.
- 7.77 Where fulfilment will be made by the entity itself, the cost of fulfilment ~~cost~~ does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of fulfilment ~~amount~~ is based on the cost of employing a contractor, the amount will implicitly include the profit required by the

contractor, as the total amount charged by the contractor will be a claim on the entity's resources—this is consistent with the approach for assets, where replacement cost would include the profit required by a supplier, but no profit would be included in the replacement cost for assets that the entity would replace through self-construction.

- 7.78 Where fulfilment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement reporting date.
- 7.79 Cost of fulfilment is generally relevant for measuring liabilities except in the following circumstances:
- where the entity can obtain release from an obligation at a lower amount than the cost of fulfilment, ~~then cost of release is a more relevant measure of the current burden of a liability, just as, for an asset, net selling price is more relevant when it is higher than value in use; and~~
 - ~~in the case of liabilities assumed for a consideration, assumption price (see paragraphs 7.88 to 7.93) is more relevant when assumption price is higher than both cost of fulfilment and cost of release.~~

Market Fair value

- 7.80 Market Fair value for a liabilities is:

The ~~amount for which~~ price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date ~~could be settled between knowledgeable, willing parties in an arm's length transaction.~~

- 7.81 ~~The advantages and disadvantages of market value for liabilities are the same as those for assets. Such a measurement basis Fair value may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an open, active and orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear the case for market fair values, even if they exist, is significantly weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions, because it is unlikely that there will be an open, active and orderly market for such liabilities.~~

Cost of release

- 7.82 ~~[Deleted]~~ Cost of release is:

~~The amount of an immediate exit from the obligation.~~

- 7.83 ~~[Deleted]~~ 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. 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 — this is consistent with the approach for assets, where net selling price would not reflect the amount that would be received on sale to a scrap dealer, if a higher price could be obtained from sale to a purchaser who would use the asset.

- 7.84 ~~[Deleted]~~ For some liabilities, particularly in the public sector, transfer of a liability is not practically possible and cost of release will therefore be the amount that the creditor will accept in settlement of its claim. This amount will be known if it is specified in the agreement with the creditor — for example, where a contract includes a specific cancellation clause.
- 7.85 ~~[Deleted]~~ In some cases there may be evidence of the price at which a liability may be transferred — for example, in the case of some pension liabilities. Transferring a liability may be distinguished from entering into an agreement with another party that will fulfil the entity's obligation or bear all the costs stemming from a liability. For a liability to be transferred it is necessary that all of the creditor's rights against the entity are extinguished. If this is not the effect of an arrangement, the liability remains a liability of the entity.
- 7.86 ~~[Deleted]~~ In assessing whether cost of release is appropriate for measuring liabilities it is necessary to consider whether release in the envisaged manner is an option that is open to the entity in practice, having regard to any consequences of obtaining release, such as damage to the entity's reputation.
- 7.87 ~~[Deleted]~~ Just as net selling price is relevant only when the most resource efficient course available to the entity is to sell the asset, so cost of release is relevant only when the most resource efficient course is to seek immediate release from an obligation. In particular, where cost of fulfilment is lower than cost of release, cost of fulfilment provides more relevant information than cost of release, even if it is feasible to negotiate a release from the obligation in accordance with the methods for transferring a liability in paragraph 7.84.

Assumption price

- 7.88 ~~[Deleted]~~ Assumption price is:
The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.
- 7.89 ~~[Deleted]~~ "Assumption price" is the term used in the context of liabilities to refer to the same concept as replacement cost for assets. Exchange transactions carried out on arms-length terms will provide evidence of assumption price — this is not the case for non-exchange transactions.
- 7.90 ~~[Deleted]~~ In the context of an activity that is carried out with a view to profit, an entity will assume a liability only if the amount it is paid to assume the liability is greater than

~~the cost of fulfilment or release — i.e. the settlement amount. Once that assumption price has been received by the entity, the entity has an obligation to its creditor.~~

- 7.91 ~~[Deleted] At the time a liability is first incurred in an exchange transaction, assumption price represents the amount that was accepted by the entity for assuming the liability — it is therefore usually reasonable to assume that assumption price is the price that the entity would rationally accept for assuming a similar liability. It would charge a higher amount, if competitive pressures allowed it to do so, but it might be unwilling to accept a lower price. Just as replacement cost is a current value so, conceptually, is assumption price. There are, however, practical problems in reflecting changes in prices in obligations that are stated at assumption price.~~
- 7.92 ~~[Deleted] A consequence of stating performance obligations at the assumption price is that no surplus is reported at the time the obligation is taken on. A surplus or deficit is reported in the financial statements in the period when fulfilment (or release) takes place, as it is the difference between the revenue arising from satisfaction of the liability and the cost of settlement.~~
- 7.93 ~~[Deleted] An entity may have a potential obligation that is larger than assumption price. If the entity has to seek release from a contract, the other party to the contract may be able to claim recompense for losses that it will sustain, as well as the return of any amounts paid. However, provided that the entity can settle the obligation by fulfilment, it can avoid such additional obligations and it is representationally faithful to report the obligation at no more than assumption price — this is analogous to the position where an asset will yield greater benefits than replacement cost. Under such circumstances, as explained in paragraph 7.42, replacement cost rather than value in use is the most relevant measurement basis.~~

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to issues outlined in the Conceptual Framework and departures from the IPSASB's Conceptual Framework. This basis for conclusions accompanies, but is not part of, the Conceptual Framework.

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Chapter 7 – Measurement of assets and liabilities in financial statements

BC33. In developing this Conceptual Framework, the Board did not make any significant modifications to Chapter 7 of the IPSASB's Conceptual Framework.

BC33A. The Board amended Chapter 7 in **xx 2026** to align with the updated measurement principles in the IPSASB's Conceptual Framework.