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EXTERNAL REPORTING BOARD

# IPSASB Measurement Proposals

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July 2021



# IPSASB EDs



- ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements 'CF Update'*
- ED 77 *Measurement*
- ED 78 *Property, Plant and Equipment*
- ED 79 *Non-current Assets Held for Sale and Discontinued Operations*

# Presentation



- Overview
- *ED 78 Property, Plant and Equipment*
  - Revaluation of PP&E – what's new?
  - Heritage – what's new?
  - Infrastructure – what's new?
- ED 76 and ED 77
  - Mysteries of measurement bases: why we should get excited!
- *ED 79 Non-current Assets etc*

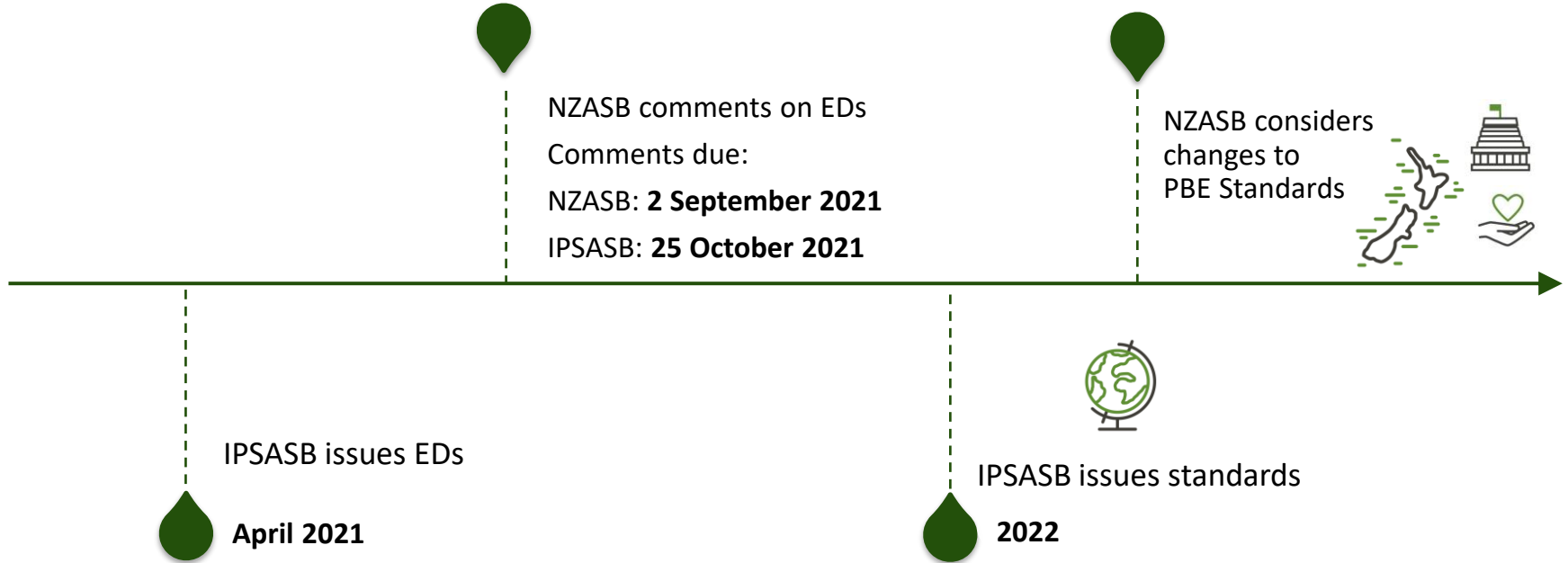


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# Overview



# Why read the EDs?



# Four EDs

## ED 76

Amends the  
Conceptual  
Framework



## ED 77

How to apply  
measurement  
bases: IFRS 13  
and more...



## ED 78

Revises  
IPSAS 17  
esp revalued  
assets



## ED 79

Picks up  
IFRS 5

What do they do?  
Which bits should I read?



# IPSASB's intentions



- Align **fair value** in IPSAS with IFRS<sup>®</sup> Standards
- Develop an **alternative to fair value**
- Develop **guidance** on measurement
- Consider issues raised in **heritage** and **infrastructure** projects



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# ED 78

*Property, Plant and Equipment*





# ED 78 PP&E

- Revaluation – what’s new?

- Most PP&E is held for its **operational capacity**

- generally use **current operational value (COV)**

New approach

- Some PP&E could be held for its **financial capacity**

- generally use **fair value**

New definition

Operational capacity – COV	Financial capacity – FV
Assets held with the primary objective of service delivery (AG27)	Assets held with the primary objective of generating a financial return (AG26)

# ED 78 PP&E



Current definition	Proposed definitions
<p><u>Fair value</u> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.</p>	<p><u>Current operational value</u> is the value of an asset used to achieve the entity's service delivery objectives at the measurement date.</p>
	<p><u>Fair value</u> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. [IFRS 13 definition]</p>

New approach

New definition

# ED 78 – Heritage

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- IPSASB has added integral (AG) and non-integral guidance (IG)
- Reliable measurement addressed in proposals
- Where Heritage items **can** be recognised and measured
  - Now included in IPSAS 17 requirements
- Where Heritage items **can't** be recognised and measured
  - New disclosure: explain why can't be reliably measured and significance to entity (paras 80-81 and AG 44-45)
  - Examples of control of heritage items (IG 6-8)
- IPSASB has not addressed all the issues raised:
  - *Kaitiakitanga* (guardianship) – *te ao Māori* (Māori world)
  - Control/guardianship, cultural sensitivity, perpetuity/useful life

# Infrastructure assets

- Potential changes to assets measured using DRC – more on this later
- IPSAS 17 has limited guidance on infrastructure assets – ED 78 has a bit more

## Application Guidance on:

- Characteristics and examples of infrastructure assets (AG4–AG6)
- Resource, control and past event (AG8–AG15)
- Identifying parts of infrastructure assets (AG31)



# Infrastructure assets

## Implementation guidance on:

- Assessment of control (IG1–IG3)
- Control of land under or over infrastructure assets (IG4–IG5) (IE1–IE6)
- Capitalisation thresholds (IG10–IG14)
- Valuing land under or over infrastructure assets (IG19–IG21)  
Identifying parts of infrastructure assets for depreciation (IG30–IG34)
- Use of information in asset management plans (IG35–IG36)
- Under-maintenance of assets (IG37–IG40)

Non-integral



# Measurement bases and their mysteries – why we should get excited!



# Measurement bases

## 2014 Conceptual Framework

### Assets

Historical cost  
Market value  
Replacement cost  
Net selling price  
Value in use

### Liabilities

Historical cost  
Market value  
Cost of fulfilment  
Cost of release  
Assumption price

## ED 76 CF Update

### Assets

Historical cost  
Fair value  
Current operational value

### Liabilities

Historical cost  
Fair value  
Cost of fulfilment

Add FV and COV  
Align FV with IFRS 13  
Simplify the CF

Net selling price  
*Value in use*  
Cost of release  
Assumption price

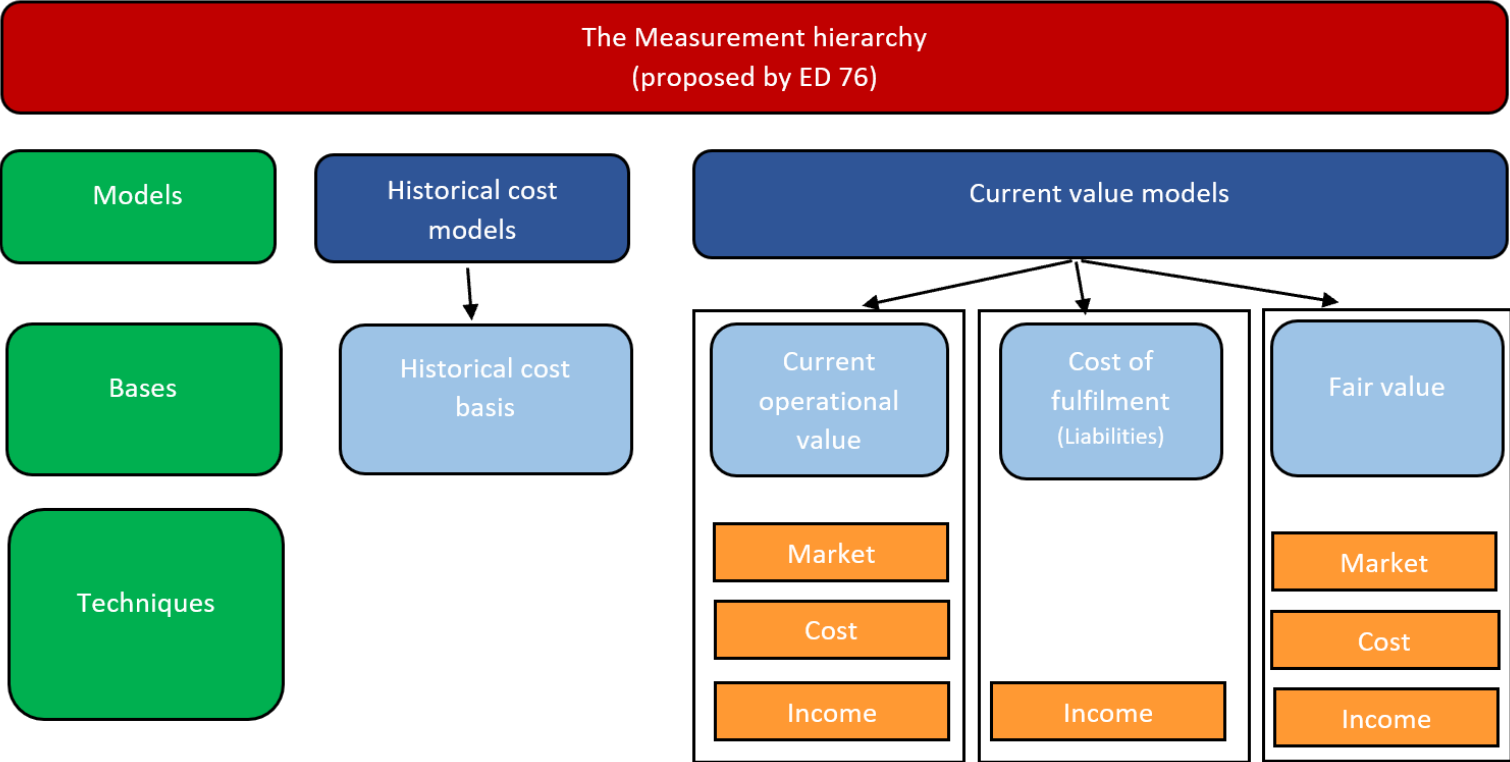
# ED 77 *Measurement*



- ED 77 explains how to apply
  - historical cost
  - current operational value (new concept)
  - fair value (new definition, aligned with IFRS 13)
  - cost of fulfilment
- ED 77 says which techniques can be used
  - market approach
  - cost approach
  - income approach



# Measurement hierarchy



# Do the changes matter?

## COV definition

*Current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date.*

## Alternative views

- ED 76: COV definition is not clear – should be based on cost of replacing service potential
- ED 77: The income approach is not appropriate for COV

## Impact on DRC

- DRC is a cost approach – a cost approach would still be permitted for COV
- Some differences – check out restrictions, surplus capacity

*Change isn't necessarily bad, but requirements need to be clear  
Valuers need to know what accounting standards require*

# ED 79

## *Non-current Assets Held for Sale and Discontinued Operations*

# ED 79

## *Non-current Assets Held for Sale and Discontinued Operations*

- We already have PBE IFRS 5
- Differences between ED 79 and PBE IFRS 5?
  - New definition of fair value
  - New disclosure: If an asset's carrying amount is materially lower than its fair value, disclose fair value





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Discover

<https://www.xrb.govt.nz/>

See 'Open for comment' section

Comments due to NZASB **2 September 2021**

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