

Consultation Paper: Measurement

This summary provides an overview of the IPSASB's Consultation Paper, *Measurement*.

Project objective:	To establish a single comprehensive standard which identifies and defines the measurement bases used in IPSAS and provides generic application guidance on the derivation of these measurement bases.
The project stage:	The International Public Sector Standards Board® (IPSASB®) issued this Consultation Paper (CP), in April 2019.
Next steps:	The IPSASB seeks feedback to guide it in developing principles that establish the guidance for measurement in the public sector.
Comment deadline:	The Consultation Paper is open for public comment through September 30, 2019.
How to respond:	Respondents are asked to submit their comments electronically through the IPSASB website, using the “Submit a Comment” link on the Consultation Paper page. Please submit comments in both PDF <u>and</u> Word file. All comments will be a matter of public record and will be posted on the website.

Why the IPSASB Undertook this Project

The purpose of this project is to develop guidance for measurement bases that are widely applied throughout the IPSAS suite of standards in order to meet the objectives of financial reporting.

The IPSASB completed *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) in 2014. The Conceptual Framework establishes the concepts that underpin financial reporting, which the IPSASB applies in developing IPSAS.

After completing the Conceptual Framework, the IPSASB recognized a need to better align IPSAS measurement requirements and guidance with the principles in the Framework. Constituents reinforced this view by supporting a Public Sector Measurement project in their responses to the IPSASB's 2014 Strategy and Work Plan consultation.

With the rationale that measurement requirements in IPSAS should be amended to better align them with the Conceptual Framework's measurement concepts, the IPSASB's Measurement Project began in 2017.

The project's objectives are to:

- (a) Issue amended IPSAS with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure;
- (b) Provide more detailed guidance on the implementation of historical cost, replacement cost, fulfillment cost, and fair value, and the circumstances under which these measurement bases will be used; and
- (c) Address transaction costs and borrowing costs.

An Innovative Consultation Approach

In an effort to better communicate with its constituents the IPSASB is testing a new consultation approach – including an Illustrative ED within a CP.

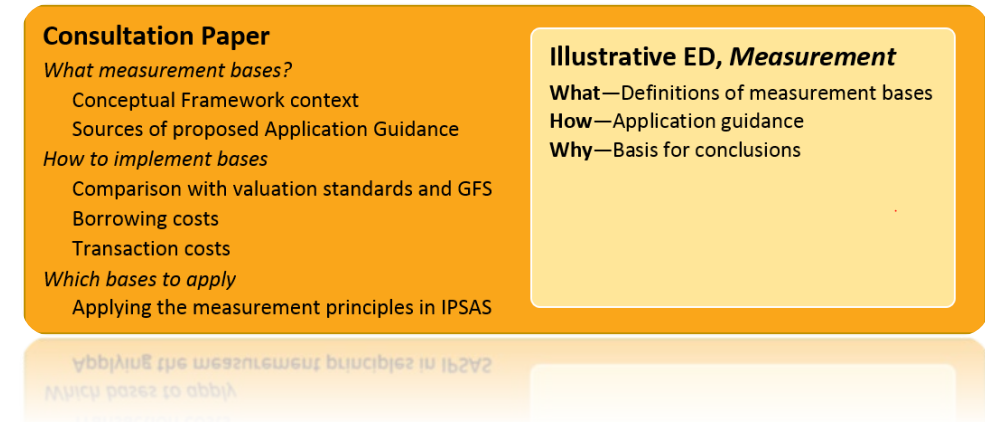
The IPSASB is testing a new approach in order to improve its consultations with its constituents. This approach provides both:

- A concepts-based discussion, in the Consultation Paper, which identifies areas where the IPSASB has reached preliminary views; and
- An Illustrative Exposure Draft, which illustrates what a draft IPSAS could look like, given the IPSASB’s preliminary views.

This approach provides constituents with a clear view of the IPSASB’s direction of travel, by showing what the ideas in the CP would result in as a draft IPSAS.

By being more transparent about where the IPSASB’s discussions and the ideas in the CP are leading, the IPSASB hopes to get better feedback.

Figure 1: Structure of Consultation Paper



Project Scope and Output

The project is to focus on generic principles rather than on the specifics of particular transactions or standards.

Project Scope

In order to achieve the project's objectives, the CP focuses primarily on developing guidance that is widely applicable and can be broadly applied throughout the IPSAS suite of standards.

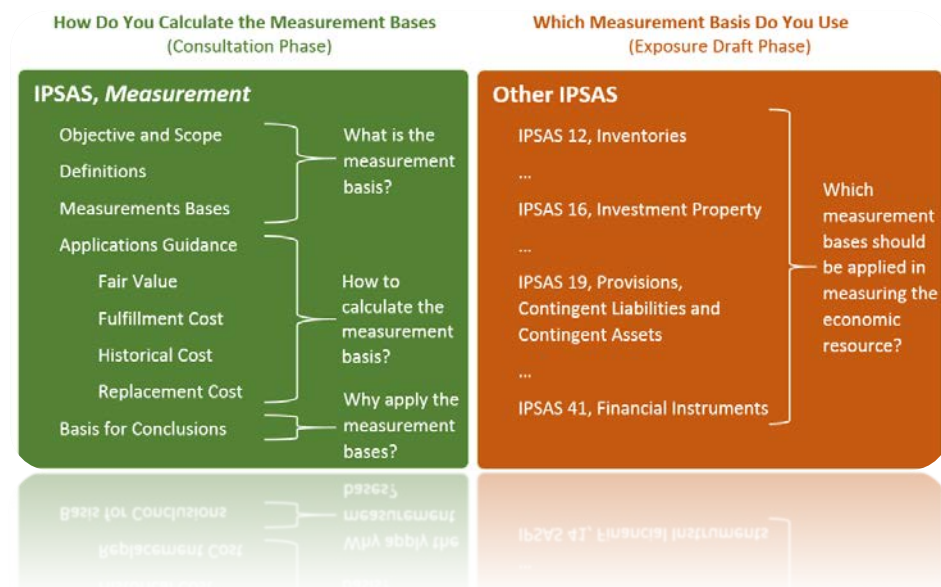
The goal is to focus on generic principles rather than on the specifics of particular transactions or standards.

Project Outputs

The CP identifies the most commonly used measurement bases for measuring assets and liabilities for public sector entities applying IPSAS. Definitions and explanatory text for those measurement bases are developed to support the application of the measurement bases in practice, i.e., it answers the “what” question.

Other IPSAS will continue to address the choice of a measurement basis, i.e. they will address the “which measurement basis?” question.

Figure 2: Project Outputs



Measurement Bases

The CP proposes the development of detailed guidance for the widely used measurement bases for measuring assets and liabilities applied in IPSAS.

To better align the financial statement measurement requirements in IPSAS with the measurement concepts in the Conceptual Framework, the CP identifies the measurement bases in the Conceptual Framework that are relevant in the IPSAS suite of standards. How widely used the measurement basis is in IPSAS is considered key in determining whether additional implementation guidance required development.

For the four measurement bases identified, the CP defines the bases and provides detailed guidance on how the bases are implemented in practice.

Figure 3: Bases of Measurement

Fair Value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date
Fulfillment Value	Cost that an entity will incur in fulfilling the obligations represented by the liability
Historical Cost	Consideration given to acquire or develop an asset Consideration received to assume an obligation
Replacement Cost	The most economic cost required for the entity to replace the service potential of an asset (including the amount that would be received from the asset's disposal)
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Areas of Focus

The CP proposes a number of further preliminary views on key aspects of measurement

Areas of Focus

The Consultation Paper addresses a number of important further issues.

Accounting for Transaction Costs

IPSAS currently define transaction costs, or their equivalent, in several ways. The CP universally defines transaction costs as the incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability.

The CP proposes accounting for transaction costs on the basis of:

- The objective of the measurement basis; and
- Whether the costs are entry or exit based.

Accounting for Borrowing Costs

The CP defines borrowing costs as interest and other expenses incurred by an entity in connection with the borrowing of funds.

The ability to expense or capitalize borrowing costs depending on the transaction reduces consistency in accounting. The CP proposes all borrowing costs be expensed to enhance the comparability of information in the financial statements.

Fair Value Measurement

The CP proposes, for consistency and comparability, the term 'Fair Value' as defined in IFRS 13, *Fair Value*, should be used in IPSAS where an exit-based current value is required.

However, incorporating fair value into IPSAS presents a number of challenges. One of these challenges is the potential overlap in the definitions of market value in the Conceptual Framework and the IFRS 13 definition of fair value.

The approach to market value will be considered in the limited-scope review of the conceptual framework project.

Next Steps

The deadline for comments is **September 30, 2019**.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The CP requests comments on the Preliminary Views (PVs) and Significant Matters for Comment (SMCs).

Respondents may provide comments and answers on all the PVs and SMCs. They are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB’s website will indicate the meetings at which feedback on the CP will be discussed. The dates and locations of the 2019 meetings are at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<http://www.ipsasb.org/projects/public-sector-measurement>