

Exposure Draft 76
April 2021
Comments due: October 25, 2021

IPSAS®

Proposed Update to Conceptual Framework

Conceptual Framework
Update: Chapter 7,
*Measurement of Assets and
Liabilities in Financial
Statements*

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB developed its Conceptual Framework, sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by October 25, 2021.**

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. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the ED

As part of the IPSASB’s focus on improving measurement guidance across IPSAS, this ED looks to enhance the alignment between Chapter 7 of its Conceptual Framework and the suite of IPSAS. This ED was developed in conjunction with ED 77, *Measurement*, to maximize consistency across measurement concepts.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment for the ED are provided below.

Specific Matter for Comment 1:

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy?

If not, why not? How would you modify it?

Specific Matter for Comment 2:

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, *Fair Value Measurement*, in the Conceptual Framework?

If not, why not?

Specific Matter for Comment 3:

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework?

If not, why not?

The Exposure Draft includes an Alternative View on current operational value.

Specific Matter for Comment 4:

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the previous broader discussion of VIU. This is because the applicability of VIU is limited to impairments. Do you agree with this proposed change?

If not, why not? How would you approach VIU instead and why?

Specific Matter for Comment 5:

Noting that ED 77, *Measurement*, proposes the use of the cost approach and the market approach as measurement techniques, do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework:

- Market value—for assets and liabilities; and
- Replacement cost—for assets?

If not, which would you retain and why?

Specific Matter for Comment 6:

The IPSASB considers that the retention of certain measurement bases that were in the 2014 Conceptual Framework is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework?

- Net selling price—for assets
- Cost of release—for liabilities
- Assumption price—for liabilities

If not, which would you retain and why?

Specific Matter for Comment 7:

Are there any other issues relating to Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework that you would like to highlight?

EXPOSURE DRAFT 76, Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*

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CHAPTER 7: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

Introduction

7.1 This Chapter identifies the measurement concepts that guide the IPSASB in the selection of measurement bases for IPSAS and by preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in IPSAS.

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 measurement 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:

- Cost of services—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; or
- Financial capacity—the capacity of the entity to fund its activities.

7.4 The selection of measurement 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 Measurement Hierarchy

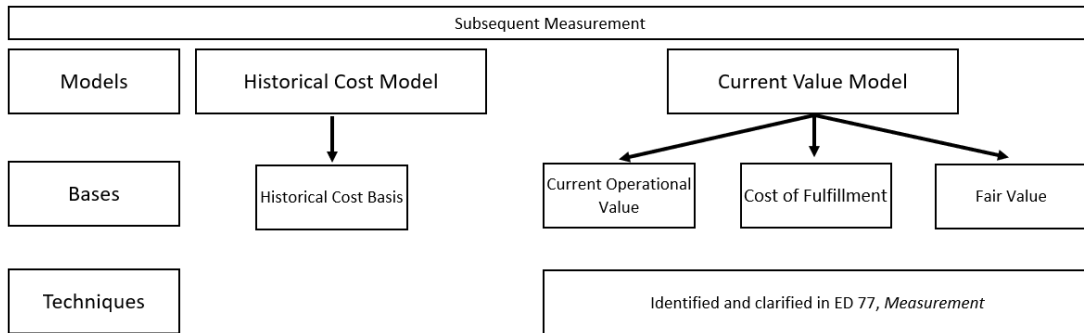
7.5 On initial measurement an item is measured at its transaction price¹, unless the transaction price does not faithfully present relevant information about the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

7.6 Subsequent to initial measurement there are three levels of measurement:

- Measurement models
- Measurement bases
- Measurement techniques

¹ Transaction price is the price paid to acquire an asset or received to assume a liability.

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



- 7.7 **Measurement models** are the broad approaches for measuring assets and liabilities for inclusion in the financial statements.
- 7.8 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.
- 7.9 Under the current value model, assets and liabilities are measured using information updated to reflect price changes to the measurement date.
- 7.10 **Measurement bases** are specific approaches to measuring assets and liabilities under the measurement model selected. Measurement bases provide information that best meets the qualitative characteristics while taking into account the constraints on information in financial reports.
- 7.11 Dependent on the measurement model, subsequent measurement is either at the historical cost measurement basis or at a current value measurement basis.
- 7.12 **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 and a liability and the availability of observable data. Guidance on measurement techniques is provided at the standards level.

The Selection of Measurement Models and Measurement Bases

- 7.13 It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a conceptual level. Therefore, the Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions, events, and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities 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.
- 7.14 The following measurement bases for assets are identified and discussed in terms of (a) the information they provide about the cost of services delivered by an entity, (b) the operational capacity 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 financial reports:
- Historical cost;

- Fair value; and
- Current operational value.

7.15 Value in use is discussed in paragraphs 7.57-7.62. It is not included in the above list of measurement bases because its use is limited to impairment.

7.16 The following measurement bases for liabilities are identified and discussed: s

- Historical cost;
- Cost of fulfillment; and
- Fair value.

Entity-Specific and Non-Entity-Specific Measures

7.17 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 and legal and other constraints that affect the possible uses of an asset and 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.

7.18 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

Measurement Basis	Entity-Specific or Non-Entity-Specific
Historical cost	Entity-specific
Fair value	Non-entity-specific
Current operational value	Entity-specific

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

Measurement Basis	Entity -Specific or Non-Entity-Specific
Historical cost	Entity-specific
Cost of fulfillment	Entity-specific
Fair value	Non-entity-specific

Entry and Exit Values

7.19 Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction, or development. Exit values reflect the amount derived from use of the asset and the economic benefits from sale.

- 7.20 For liabilities, entry values relate to the transaction or event under which an obligation is incurred. Exit values reflect the amount required to fulfill or transfer an obligation.
- 7.21 Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases will 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.

Level of Aggregation or Disaggregation for Measurement

- 7.22 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, the costs are compared with the benefits.

Measurement Bases for Assets

- 7.23 This section discusses the following measurement bases for assets:

- Historical cost;
- Fair value; and
- Current operational value.

Historical Cost

- 7.24 Historical cost is the measurement basis under the historical cost model.

- 7.25 Historical cost for an asset is:

The consideration given to acquire 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 or development.

- 7.26 Historical cost is an entity-specific measurement basis. Subsequent to initial measurement, the historical cost may be allocated as an expense to reporting periods in the form of depreciation or amortization for certain assets. Depreciation and amortization represent the consumption of the service potential or ability to generate economic benefits provided by such assets over their useful lives. Consistent with the historical cost model, following initial measurement, the carrying amount of an asset is not changed to reflect changes in prices, except where related to impairment.
- 7.27 Under the historical cost measurement basis, the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset has diminished due to changes in economic or other conditions, as distinct to the consumption of an asset. This involves an assessment of the recoverable amount of an asset. Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements or other events (excluding price increases for unimproved assets), such as the accrual of interest on a financial asset. Depreciation, amortization, and impairment are also relevant to current value measurement bases (see paragraph 7.34).

Cost of Services

7.28 Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire or develop assets consumed in the provision of services. Historical cost generally provides a direct link to the transactions actually entered into by the entity. Because the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the 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 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

7.29 If an asset has been acquired 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 or developed, it can be assumed that the value to the entity of its service potential is at least as great as the cost of purchase. When depreciation or amortization is recognized, 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 as great as the amount at which they are stated. If an asset has been acquired in a non-exchange transaction the transaction price will not provide information on operational capacity that meets the qualitative characteristics while taking into account the constraints on information in financial reports.

Financial Capacity

7.30 The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost, less any accumulated impairment losses and depreciation or amortization, 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 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 values.

Application of the Qualitative Characteristics

7.31 Paragraphs 7.28-7.30 explain the areas where historical cost provides relevant information with 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. Because application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are verifiable, understandable and can be prepared on a timely basis.

7.32 Historical cost information is comparable to the extent that assets have the same or similar acquisition dates. Because historical cost does not reflect the impact of price changes, it is not possible to compare meaningfully the amounts of assets that were acquired at different times when prices differed.

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

Measurement Bases for Assets under the Current Value Model

7.34 Measurements under the current value model reflect the economic environment prevailing at the reporting date. Depreciation, amortization, and impairment, which are discussed in the context of the historical cost measurement basis in paragraphs 7.26 and 7.27, are also relevant to current value measurement bases. Additions and enhancements may affect measurements under current operational value and fair value.

7.35 Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity and selects the fair value measurement basis or the current operational value measurement basis.

Fair Value

7.36 Fair value for assets is:

The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

7.37 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.

7.38 In principle, fair value measurements provide useful information because they fairly reflect the value of the asset to the entity. In an orderly market (see paragraph 7.40), the asset cannot be valued less than fair value as, disregarding transaction costs, the entity can obtain that amount by selling the asset, and cannot be valued more than fair value, as the entity can obtain the same ability to generate economic benefits by purchasing the same (or similar) asset in the market.

7.39 The usefulness of fair value is more questionable when the assumption that markets are 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. Although the purchase of an asset provides evidence that the value of the asset to the entity is at least as great as its purchase price at that time, operational factors may mean that the value to the entity may be greater. Hence, fair value 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.

Orderly Markets

7.40 Orderly markets have the following characteristics:

- There are no barriers that prevent the entity from transacting in the market;
- There is sufficient frequency and volume of transactions to provide price information; and
- There are 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, if any, markets fully exhibit all of these characteristics, but some may approach an orderly market.

Fair Value where Markets Cannot be Assumed to be Orderly

7.41 Markets for assets that are unique and rarely traded are unlikely to be 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. Where markets are not orderly, it is necessary to use 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 technique requires inputs that are directly or indirectly observable, where possible, or unobservable where observable inputs cannot be identified. Measurement techniques are determined at the standards level.

7.42 Fair value permits a return on assets to be reported. However, public sector entities for which the IPSASB 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 subsidized terms. Consequently, there may be limited relevance in a reported return derived from fair value.

Cost of Services

7.43 Fair value reflects the asset’s ability to generate economic benefits and the price expected to be received on sale. Therefore, it provides less useful information for the cost of services than current operational value, which can reflect the value of an asset in its current use.

Operational Capacity

7.44 The usefulness of information on the fair value of assets held to provide services is limited. If fair value is significantly lower than historical cost, fair value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity—fair value is also likely to be less relevant than current operational value.

Financial Capacity

7.45 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 value. Fair value is therefore an appropriate measurement basis where assets are held for sale

or where assets previously held for their operational capacity are surplus to operational requirements.

Application of the Qualitative Characteristics

- 7.46 Values determined in 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. Because it can be prepared quickly, such information is also likely to be timely.
- 7.47 The extent to which fair value 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, fair value is only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity.

Current Operational Value

7.48 Current operational value is:

The value of an asset used to achieve the entity's service delivery objectives at the measurement date.

7.49 Current operational value reflects the following characteristics. It:

- Is based on an asset's current use;
- Assumes that an asset will continue to be used for service delivery rather than being sold; and
- Is entity-specific and therefore reflects the economic position of the entity, rather than the perspective of a market participant. For example, the current operational value of a vehicle may be 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.

7.50 An asset supports an entity in achieving its service delivery objectives in its current use. 'Current use' is the current way an asset is used. Current use generally reflects the policy objectives of the entity operating the asset.

7.51 Current operational value measures the value of an asset, or assets, in supporting the achievement of an entity's service delivery objectives.

Cost of Services

7.52 The costs of services are 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. 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 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 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.

Operational Capacity

7.53 As indicated above, current operational value 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.²

Financial Capacity

7.54 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

7.55 Current operational value focuses on the value of an asset in supporting the achievement of an entity's service delivery objectives and therefore provides information that is both relevant and faithfully representative.

7.56 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. Different entities may report similar assets at different amounts because current operational value is an entity-specific measure that reflects the opportunities that are available to the entity to obtain an asset to achieve an entity's service delivery objectives. These opportunities 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. This reinforces the ability of current operational value to provide relevant and faithfully representative information. The extent to which current operational value measures meets the qualitative characteristics of timeliness, understandability and verifiability depends on the nature of the asset and the estimation techniques used.

Value in Use

7.57 Value in use is applicable for assessments of impairment.

7.58 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 disposal at the end of its useful life. This requires the discounting of cash flows to a present value. Such requirements and guidance are provided at the standards level.

7.59 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

² The Alternative Views to ED 76 and ED 77 express a view that the income approach is an inappropriate measurement technique for current operational value.

dependent on the nature of the asset and, because of its applicability to impairment, the indicator of impairment. Such guidance is provided at the standards level.

- 7.60 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 discretely, and then making an allocation to individual assets. Such allocations may be arbitrary, which may have an adverse impact on faithful representation.
- 7.61 Value in use for non-cash-generating assets is also complex, as it requires the use of surrogate measurement bases or techniques in order to provide entity-specific estimates of an asset's remaining service potential.
- 7.62 Paragraph 7.35 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 judgment whether an asset is primarily held for operational capacity or financial capacity, and selects the fair value measurement basis or the current operational value measurement basis. 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.

Measurement Bases for Liabilities

- 7.63 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 fulfillment; and
 - Fair value.

Historical Cost

- 7.64 Historical cost for a liability is:

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

- 7.65 Under the historical cost model initial measures are adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of a discount or amortization of a premium.
- 7.66 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, 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 amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.
- 7.67 The advantages and drawbacks of using the historical cost measurement 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 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 Fulfillment

7.68 Cost of fulfillment 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.

7.69 Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.

7.70 Where fulfillment 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 of fulfilling the obligation.

7.71 Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of fulfillment 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.

7.72 Where fulfillment 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 date.

7.73 Cost of fulfillment is generally relevant for measuring liabilities except in the circumstances where:

- The entity can obtain release from an obligation at a lower amount than cost of fulfillment; or
- A liability is assumed for consideration, and that consideration is higher than the cost of fulfillment and the amount to obtain release from an obligation.

Fair Value

7.74 Fair value for liabilities is:

The price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The advantages and disadvantages of fair value for liabilities are the same as those for assets. Such a measurement basis may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an 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 fair value, 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 orderly market for such liabilities.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Background to the Development of the Conceptual Framework and its Updating

- BC7.1 The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (The Conceptual Framework) was approved in September 2014. The development of the Conceptual Framework included a number of consultation papers and exposure drafts. On approval the IPSASB did not commit to a review of the Conceptual Framework within a specified timeframe. Although views were expressed that the Conceptual Framework should be a 'living document' subject to regular updates there was a broader view that it should be allowed to 'bed down' for a significant period. Over-frequent amendments to the Conceptual Framework also undermine the accountability that it imposes on the IPSASB in explaining approaches developed at the standards level.
- BC7.2 In 2018, after having been applied in standards development for over three years, the IPSASB considered that a limited review of certain aspects of the Conceptual Framework would be appropriate. The IPSASB's project on Measurement was a principal factor in this view. In addition, the International Accounting Standards Board (IASB) was about to issue its finalized Conceptual Framework with post-2014 developments on measurement of potential relevance to the public sector. The IPSASB therefore proposed a limited-scope update project in its Strategy and Work Plan Consultation in 2018. The proposed project received significant support from respondents for the reasons outlined by the IPSASB. The IPSASB initiated the project in March 2020.
- BC7.3 The IPSASB decided that the initial measurement focus of the 2014 Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* (the Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it. The Limited Scope Update initiated in 2020 did not reopen this issue.

The Objective of Measurement

- BC7.4 In developing the 2014 Conceptual Framework the IPSASB considered whether a specific measurement objective should be developed. The IPSASB initially took the view that a separate measurement objective was unnecessary because a measurement objective might compete with, rather than complement, the objectives of financial reporting and the qualitative characteristics. Accordingly, the 2013 Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements* (the Exposure Draft), proposed factors relevant to the selection of a measurement basis consistent with the objectives of financial reporting and the qualitative characteristics but did not include a measurement objective.
- BC7.5 Consistent with this approach the 2013 Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements—in particular, it would allow the amounts of different assets and liabilities to

be aggregated to provide meaningful totals. However, the IPSASB is of the view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics.

BC7.6 The Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:

To select those measurement attributes that most fairly reflect the financial capacity, operational capacity, and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC7.7 Many respondents, while generally in favor of the approach in the Exposure Draft, supported the Alternative View. The IPSASB also acknowledged the view that the Conceptual Framework's approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement basis underpinned by an ideal concept of capital³. The IPSASB accepts that a concept of capital related to operating capability is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.20–BC7.24, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.

BC7.8 Subsequently the IPSASB was persuaded by the views of those who argue that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the IPSASB noted that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to financial capacity and operational capacity. The IPSASB concluded that linking a measurement basis to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of the measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard setting in the public sector.

BC7.9 The IPSASB considered whether the measurement objective proposed in the Alternative View was appropriate. Some argued that the proposed measurement objective was too aligned to current value measures. However, the IPSASB formed a view that the reference to “cost of services” provides a sufficient link to historical cost, because the cost of services can be determined using both historical cost and current value measures. The IPSASB therefore

³ Such concepts of capital include invested money capital, current cash equivalents and physical capital.

adopted the following measurement objective with only a minor modification from that proposed in the Alternative View:

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.

BC7.10 The IPSASB also noted that the disadvantages of using different measurement bases may be minimized by:

- Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and
- Requiring transparent presentation and disclosure to ensure that the measurement bases used and the amounts reported on each basis are clear.

BC7.11 The IPSASB reaffirmed the need for a measurement objective and the existing wording in the Limited-scope Update project.

The Measurement Hierarchy

BC7.12 Chapter 7 of the 2014 Conceptual Framework did not explicitly identify measurement levels. The IASB's Conceptual Framework for Financial Reporting distinguishes three measurement levels:

- (a) Measures or Categories of Measurement Bases (the latter term is used in Basis for Conclusions).
- (b) Measurement Bases.
- (c) Measurement Techniques.

BC7.13 The IPSASB considered that distinguishing different levels, and building on the IASB's approach, would provide an analytical framework to inform the development of measurement requirements and guidance. Because the distinction between measures and measurement bases might be ambiguous, the following three levels were adopted for ED 76 and Exposure Draft 77, *Measurement*:

- (a) Measurement Models: broad approaches to measuring assets and liabilities for inclusion in the financial statements.
- (b) Measurement Bases: specific approaches to measuring assets and liabilities that provide the information that best meets the qualitative characteristics under the model selected.
- (c) Measurement Techniques: methods to estimate the amount at which an asset or liability is measured under the selected measurement basis.

BC7.14 In identifying measurement models and measurement bases the IPSASB reaffirmed the view in the 2014 version of the Conceptual Framework that there is not a single measurement basis that best meets the measurement objective, and, consistent with this view, that there is not one model that best meets the measurement objective. Consequently, the IPSASB identified the historical cost model as one of the two models. and retained historical cost as a measurement basis for both assets and liabilities.

BC7.15 The IPSASB considered whether to identify and discuss measurement techniques in the Conceptual Framework. The IPSASB concluded that a detailed analysis of measurement techniques is not appropriate for the Conceptual Framework and that guidance should be provided at the standards level. Therefore, in its discussion of the measurement hierarchy, the Conceptual Framework explains that measurement techniques are needed to operationalize current value measurement bases. However, the Conceptual Framework does not identify or analyze specific techniques. Exposure Draft 77, *Measurement*, discusses measurement techniques in more detail and proposes application guidance.

Entity-Specific and Non-Entity-Specific Values, Observability in a Market, Entry and Exit Values

BC7.16 The 2014 Conceptual Framework classified measurement bases as: (i) entity-specific or non-entity-specific, (ii) whether they provide information that is observable in an orderly market; and (iii) whether they provide entry or exit values. The IPSASB considered that the distinction between entity-specific and non-entity-specific measurement bases and the relationship with the measurement objective and qualitative characteristics is robust. It indicates whether measurement bases reflect the expectations of market participants and impacts the selection of a measurement basis.

BC7.17 The IPSASB decided that the characteristic of observability in a market is relevant to selection of a measurement technique once a measurement basis has been selected, rather than directly to the measurement basis itself. Consistent with the conclusion in paragraph BC7.15 that detailed guidance on measurement techniques is more appropriately addressed at the standards level, the IPSASB decided not to retain a discussion of observability in a market in the Conceptual Framework, but to refer to the 'availability of observable data' as an example of a factor in selection of a measurement technique.

BC7.18 Entry values reflect the cost of acquisition, while exit values reflect the amount that an entity derives from use of the asset and its disposal. For liabilities, entry values reflect the amount at which a liability is incurred and exit values reflect the amount to fulfill a liability. In rarer cases, entry values reflect the amount at which a liability is assumed and exit values reflect the amount to release an entity from an obligation.

BC7.19 The IPSASB is of the view that the key factor in selection of a measurement basis is the measurement objective; in particular, whether an asset is primarily held for its operational or financial capacity and the characteristics of a liability. The IPSASB concluded that the distinction between entry and exit values is useful in deciding whether a measure includes transaction costs, and, if so, whether on acquisition or disposal of an asset or the incurrence or disposal/settlement of a liability. The Conceptual Framework therefore includes a high-level discussion on entry and exit values but does not classify measurement bases as entry or exit.

Measurement Bases for Assets

Historical Cost

BC7.20 Historical cost is a measurement basis applied in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft that preceded the 2014 version of the Framework advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost information. They also noted that, because historical cost is widely adopted in combination with other

measurement bases, its continued use avoids the costs that would arise if a future revision of a current standard that requires or permits historical cost were to require the use of a different measurement basis.

BC7.21 Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is particularly important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.

BC7.22 The IPSASB agreed that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity and accepted that users are interested in the cost of services based on actual transactions. Historical cost provides information on what services actually cost in the reporting period, rather than what they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.

BC7.23 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results and the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that where this is the case historical cost enhances comparison against budget.

BC7.24 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both decision making and accountability purposes. Because historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.

Fair Value

BC7.25 Shortly before the 2014 Conceptual Framework was finalized the IASB approved IFRS 13, *Fair Value Measurement*. IFRS 13 adopted an explicitly exit-based definition of fair value. This differed from the definition of fair value in the IPSASB's literature, which was aligned with the pre-IFRS 13 definition of fair value. The IPSASB decided to rename its fair value definition as 'market value'. The aim was to avoid two global standard setters using the term 'fair value' with different definitions in future standards development. Unlike the revised IASB definition of fair value, market value could be appropriate for non-specialized physical assets held for operational capacity as well as assets held for financial capacity. Since 2014 the IPSASB's standards-level work, especially that on financial instruments, has led the IPSASB to conclude that a non-entity-specific current value measurement basis is necessary for both assets and liabilities. This view was reflected in IPSAS 41, *Financial Instruments*, and in the illustrative exposure draft in Consultation Paper, *Measurement*. The updated measurement chapter therefore includes fair value for both assets and liabilities, based on the IASB's exit-based definition of fair value.

Current Operational Value

BC7.26 The 2014 Conceptual Framework included replacement cost as a current value measurement basis, envisaging that it would be appropriate for specialized assets. As noted in paragraph BC7.25 the IPSASB has adopted an exit-based definition of fair value. The cost approach, a

measurement technique for fair value, has some similarities to replacement cost. These inter-related factors necessitated the development of a measurement basis that can be applied to assets held primarily for operational capacity.

BC7.27 The IASB's 2018 Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB considered whether current cost should be adopted as a current value measurement basis for assets that are primarily held for operational capacity (see paragraph BC7.68 for a discussion of current cost for liabilities). The IPSASB formed a view that a measurement basis similar to current cost is relevant in a public sector context for both specialized assets and non-specialized held for operational capacity. However, rather than the cost of an equivalent asset in the IASB's definition of current cost the IPSASB formed a view such a measurement basis should reflect an asset's existing use in delivering services. The IPSASB decided to use the term 'current operational value' for this measurement basis. Current operational value is a versatile measurement basis. For non-specialized assets, it can be supported by directly market-based measurement techniques with similarities to market value. For specialized assets, measurement techniques to determine the value of the asset may be applied. The updated Conceptual Framework therefore includes current operational value as a measurement basis for assets primarily held for operational capacity.

Measurement Bases and Approaches for Assets not included in the Updated Conceptual Framework

BC7.28 The following measurement bases and approaches for assets in the 2014 Conceptual Framework have not been included in the updated version:

- Market value;
- Replacement cost;
- Net selling price; and
- Value in use.

BC7.29 The following measurement bases were considered for inclusion but rejected:

- Symbolic value;
- Synergistic value; and
- Equitable value.

BC7.30 In developing the 2014 Conceptual Framework the IPSASB also considered and rejected the deprival value model, which is an approach to selection of a measurement basis, rather than a measurement basis in its own right.

Market Value

BC7.31 In light of the decision to include fair value and current operational value as measurement bases under the current value model, the IPSASB considered whether it was necessary to retain market value as a measurement basis for assets. The IPSASB considered that fair value is the current value measurement basis that best meets the measurement objective where assets are held for financial capacity and for determining the amount of a liability that can be transferred to a third party under current market conditions. Current operational value is the current value measurement basis that best meets the measurement objective where assets are held for

operational capacity, because it does not include a 'highest and best use' market-based assumption, and, as an entity-specific measurement basis, does not reflect the expectations of market participants. The IPSASB therefore concluded that it was not necessary to retain market value. Market-based techniques can be used to operationalize the fair value and current operational value measurement bases. Such decisions are made at the standards level.

Replacement Cost

BC7.32 Replacement cost was defined in the 2014 Conceptual Framework, as:

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.

BC7.33 In light of the decision to include current operational value as the most appropriate current value measurement basis for operational assets, the IPSASB considered whether it was necessary to retain replacement cost as a measurement basis. The IPSASB considered that the rationale for including replacement cost as a measurement basis in the 2014 Conceptual Framework is robust, in particular that an appropriate measurement basis for specialized assets should provide information on the cost of service potential that is attributable to the asset. As noted above, current operational value is a more versatile measurement basis, as it can be applied to both specialized and non-specialized assets. Measurement techniques can be selected appropriate to the nature of the asset.

Net Selling Price

BC7.34 Net selling price is an entity-specific measurement basis that was defined in the 2014 Conceptual Framework as:

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

BC7.35 In its project on non-current assets and discontinued operations, the IPSASB considered whether net selling price should be included as an alternative measure to fair value less costs to sell in determining the recoverable amount of assets held for disposal where a disposal is on negotiated rather than market terms. The IPSASB rejected inclusion of net selling price, largely on accountability grounds, concluding that 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.

BC7.36 The IPSASB acknowledged the case for an entity-specific, current value measurement basis for assets, as an alternative to fair value where there is not an orderly market, such as a distressed or negotiated sale. In some jurisdictions events such as financial crises and pandemics have increased the likelihood of such sales. Disposal values will be affected by the impact of such events on general market conditions and therefore reflected in fair value measurements. Aside from general price effects, when disposal is estimated to be below fair value it is important that the impact of such a decision on an entity's financial position and financial performance is made fully transparent by disclosing the extent of the losses likely to be made on sale. This can be achieved by showing the difference between an asset's fair value and the sale price. The IPSASB concluded that, in light of the limited information provided by net selling price, its retention in the IPSASB Conceptual Framework was unnecessary. Net selling price and net realizable value,

which is very similar, may be specified at the standards-level, as is currently the case for net realizable value in IPSAS 12, *Inventories*.

Value in Use

BC7.37 The IPSASB considered whether to retain value in use as a current value measurement basis for assets in the Conceptual Framework.

BC7.38 The IPSASB noted that the definition in the 2014 Conceptual Framework was not fully consistent with that in the IASB's Conceptual Framework, because it is not limited to the cash-generating context and includes a reference to 'service potential'⁴. In its standards development since approval of the Conceptual Framework the IPSASB has placed increased emphasis on the consistent use of terminology and definitions by global standard setters.

BC7.39 The IPSASB acknowledged the importance of value in use in assessments of impairment gains or losses. The IPSASB also noted that value in use requires complex and subjective projections of cash flows generated by an asset or of the service potential provided by an asset. Complexity increases where assets generate cash flows in combination with other assets.

BC7.40 The IPSASB acknowledged that some assets both generate cash flows and are used in the delivery of services. In such circumstances the IPSASB reaffirmed that, for financial reporting purposes, preparers of financial statements need to make a professional judgment of the primary purpose for which an asset is held. Under the current value model, where assets are primarily held for operational capacity, current operational value is applied; where assets are primarily held for financial capacity fair value is applied. The continued applicability of value in use is therefore likely to be limited to impairment.

BC7.41 In light of the above factors the IPSASB decided to replace the definition of value in use with a limited discussion in paragraphs 7.57-7.62 of the updated Chapter.

Symbolic Values

BC7.42 In some jurisdictions certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.

BC7.43 The IPSASB acknowledged that such an approach is intended to provide useful information. However, in the development of the 2014 Conceptual Framework the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity, or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, *Elements in Financial Statements*, and Chapter 6,

⁴ The definition of value in use in paragraph 7.58 of the 2014 Conceptual Framework was: *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.*

Recognition in Financial Statements. The IPSASB did not further consider the issue of symbolic values in the Limited-scope Update project.

Equitable Value and Synergistic Value

BC7.44 The IPSASB considers that the development of conceptual and standards-level projects evaluates the requirements and guidance in International Valuation Standards (IVS) and Government Finance Statistics. In its Limited-scope Update project, the IPSASB evaluated two concepts in IVS as potential measurement bases in the Conceptual Framework—equitable value and synergistic value.

BC7.45 IVS defines equitable value as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

BC7.46 IVS defines synergistic value as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

BC7.47 Equitable value has similarities to net selling price and synergistic value relates to unit of account. The IPSASB considered net selling price in the limited scope update of the Conceptual Framework and decided not to retain this measurement basis (see above paragraphs BC7.34-BC7.36). The IPSASB plans work on unit of account in the second phase of the Limited Scope Update. The IPSASB therefore concluded that including equitable value and synergistic value as specific measurement bases in the Conceptual Framework was unnecessary.

Deprival Value Model

BC7.48 The 2011 Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, discussed the deprival value model as a rationale for selecting a current value measurement basis. Some respondents expressed reservations—in particular that the model would be costly and impose a disproportionate burden on preparers to have to consider a number of possible measurement bases for each asset that is reported. A number of respondents also considered that it is overly complex. A view was also expressed that the deprival value model unduly exaggerates the qualitative characteristic of relevance and neglects the other qualitative characteristics.

BC7.49 Although the IPSASB recognized that the deprival value model has been adopted successfully in some jurisdictions, the IPSASB acknowledged such reservations in whole or part. The IPSASB therefore included the deprival value model in the 2013 Conceptual Framework Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements*. That Exposure Draft proposed the deprival value model as an optional method of choosing between replacement cost, net selling price, and value in use where it had been decided to use a current measurement basis, but the appropriate basis could not be identified by reference to the objectives of financial reporting and the qualitative characteristics.

BC7.50 While a minority of respondents to the 2013 Conceptual Framework Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model's complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model—if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the

deprival value model in the Conceptual Framework. The deprival value model was not considered in the Limited-scope Update.

Measurement Basis for Liabilities in the Updated Conceptual Framework

Fair Value

BC7.51 Paragraph BC7.25 discusses the inclusion of fair value for assets in the updated Conceptual Framework. Consistent with the analysis for assets the IPSASB decided that fair value is an appropriate measurement basis for many liabilities depending on their characteristics. The updated measurement chapter therefore includes fair value for liabilities.

Cost of Fulfillment

BC7.52 The 2014 Conceptual Framework, in paragraph 7.74, defined cost of fulfillment as:

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.

BC7.53 In its 2018 Framework the IASB included fulfilment⁵ value defined as:

The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.

BC7.54 In light of this development the IPSASB considered whether to (a) adopt the term 'fulfillment value' rather than cost of fulfillment while retaining the original definition of cost of fulfillment (b) adopt the term 'fulfillment value' and the definition in the IASB Framework; or (c) another approach.

BC7.55 A number of respondents to the IPSASB's 2019 Consultation Paper, *Measurement*, pointed out that fulfillment value reflects a risk premium, whereas cost of fulfillment is silent on risk premia. A risk premium, which is also known as a risk margin or risk adjustment, is the price for bearing the uncertainty inherent in the cash flows. The IPSASB concluded that using the term 'fulfillment value' with a definition different to that of the IASB was inappropriate. The IPSASB also decided that the inclusion of a risk premium should be determined at the standards level.

BC7.56 The IPSASB concluded that the existing definition of cost of fulfillment should be retained. The IPSASB acknowledged that the term itself is similar to fulfillment value but concluded that provided it is clear that cost of fulfillment does not imply inclusion of a risk premium the term should be retained with its existing definition rather than adopting a new term such as 'cost of settlement'.

BC7.57 The IPSASB also considered whether the definition should retain the assumption that the obligations represented by the liability are fulfilled in the least costly manner. The IPSASB acknowledged the view that there may be circumstances where, for transparent public policy reasons, liabilities may not be fulfilled in the least costly manner. However, the IPSASB took the view that, from an accountability perspective, the assumption should be retained and concluded that the definition of cost of fulfillment should not be modified. It is possible that there may be cases where a reporting entity decides to fulfill an obligation in a manner that is not the least

⁵ The IPSASB uses the word 'fulfillment'. The IASB uses the word 'fulfilment'. This reflects usage respectively in North America and the United Kingdom. Hereafter the word 'fulfillment' is used.

costly. In such circumstances it is important that for accountability purposes there is full disclosure.

Measurement Bases for Liabilities not included in Updated Conceptual Framework

BC7.58 The following measurement bases and approaches for liabilities in the 2014 version of the Conceptual Framework have not been included in the updated version:

- Market value;
- Assumption price; and
- Cost of release.

Market Value

BC7.59 Market value for liabilities was defined in paragraph 7.80 of the 2014 version of the Conceptual Framework as:

The amount for which a liability could be settled between knowledgeable willing parties in an arm's length transaction

BC7.60 In light of the inclusion of fair value the IPSASB concluded that the retention of market value was unnecessary, as it would overlap fair value and current operational value and its inclusion would be confusing. Although not discussed in the Conceptual Framework the IPSASB noted that the market approach is proposed as a measurement technique for both fair value and current operational value in ED 77, *Measurement*.

Assumption price

BC7.61 Assumption price was defined in paragraph 7.87 of the 2014 version of the Conceptual Framework as:

The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

BC7.62 Assumption price is an entity-specific measurement basis included in the 2014 Conceptual Framework, and which had not been used in the IPSASB literature at the standards level as of 2021. It has some similarities to current cost for liabilities, as defined by the IASB in its 2018 Conceptual Framework, but refers to a liability of a counterparty, rather than a liability of the reporting entity.

BC7.63 The IPSASB assessed the case for retention of assumption price. Some IPSASB members consider that it is appropriate when the government is taking on liabilities at concessionary rates, for example guarantees to banks to facilitate lending to businesses adversely affected by financial crises, and for measuring reinsurance liabilities. The inclusion of assumption price (along with cost of release discussed below in paragraphs 7.65-7.67) was on the grounds that there may be limited circumstances where it might meet the measurement objective.

BC7.64 The IPSASB concluded that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit, potentially material. In such circumstances fair value is likely to be a more appropriate measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.

Cost of Release

BC7.65 Cost of release was defined in paragraph 7.82 of the 2014 version of the Conceptual Framework as the amount of an immediate exit from an obligation—either the amount a creditor will accept in settlement of its claim or a third party would charge to accept the transfer of the liability from the obligor. Cost of release is entity-specific and does not assume an orderly market. At the standards level the measurement requirements and guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, include a grey letter reference to 'transfer(ing) an obligation at the reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. This reference in IPSAS 19.45 is consistent with cost of release.

BC7.66 The IPSASB noted that the IASB had concluded that it was unnecessary to include cost of release in its 2018 Conceptual Framework because it is relatively unusual for entities to obtain release from liabilities, rather than fulfilling them.

BC7.67 Similarly to assumption price the 2014 Conceptual Framework justified the inclusion of cost of release on the grounds that there may be limited circumstances where it might meet the measurement objective. The IPSASB concluded that standards development since 2014 has not identified sufficient examples of circumstances where cost of release is appropriate to justify retention. The IPSASB therefore decided not to retain cost of release in the updated Conceptual Framework.

Current Cost

BC7.68 Paragraph BC7.27 discusses current cost as defined by the IASB for assets in its Conceptual Framework. Noting that in the IASB's Conceptual Framework the definition of current cost includes liabilities as well as assets the IPSASB considered whether to include current cost as a measurement basis for liabilities. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that such a measurement basis might provide useful information for managerial purposes but considered that its practical application for financial reporting is limited. The IPSASB therefore concluded that current cost for liabilities should not be included in the Conceptual Framework.

Own Credit Risk

BC7.69 The Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, sought the views of respondents on the treatment of an entity's own credit risk and changes in value attributable to changes in an entity's own credit risk.

BC7.70 The majority of respondents who commented on this issue considered that it is more appropriately dealt with at the standards level rather than in the Conceptual Framework. The IPSASB concurred with this view and therefore did not include a discussion of own credit risk in the Conceptual Framework. The IPSASB noted that where a market-based value is used to measure a liability it is necessary to consider the treatment of the entity's own credit risk. The IPSASB did not redeliberate this issue in the Limited-scope Update.

Alternative View

Alternative View of Mr. Todd Beardsworth

AV1. Mr. Beardsworth agrees that it is an appropriate time to undertake a limited scope update of the Conceptual Framework, including a review of the measurement bases. With respect to the measurement bases used for assets ED 76 proposes to delete three measurement bases (being 'market value', 'replacement cost' and 'net selling price') and to introduce two measurement bases (being 'current operational value' and 'fair value'). He agrees that fair value is an appropriate measurement basis for some public sector assets and that an alternative current value measure is required in other cases. However, he disagrees with the proposed definition of current operational value in ED 76 (shown below).

Definition Proposed in ED 76

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

AV2. He disagrees with the proposed definition of current operational value on the grounds that:

- The definition is unclear;
- The lack of clarity in the definition risks not achieving the qualitative characteristics of financial reporting; and
- The definition should focus on the cost of replacing an asset used for its service potential.

AV3. He therefore considers there should be a different definition of current operational value (as shown below) to that proposed in ED 76.

Mr. Beardsworth's Proposed Definition

Current Operational Value is the cost to replace the service potential embodied in an asset at the measurement date.

The Definition is Unclear

AV4. Mr. Beardsworth notes that the definition of current operational value in ED 76 refers to the 'value' of an asset, but does not explain what the word value refers to. Value could be a measure of the service potential provided by the asset. It could be a measure of the asset's current contribution to meeting the entity's objectives. Value could also be read as referring to the opportunity cost of using an asset to generate services, measured by reference to net cash inflows forgone. These are broad concepts and people could have different views about how to measure such values.

The Lack of Clarity in the Definition Risks not Achieving the Qualitative Characteristics of Financial Reporting

AV5. The Conceptual Framework states that 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." Because the definition of current operational value is not clear, Mr. Beardsworth considers that it is not possible to form a view about how well the proposed new measurement basis would support the measurement objective in the Conceptual Framework. The lack of clarity could allow different and inappropriate methods to be used to measure similar

classes of assets. This would not be consistent with the qualitative characteristics of faithful representation and comparability and might adversely affect understandability.

- AV6. Mr. Beardsworth also considers that, to satisfy the qualitative characteristic of relevance, the definition should be more closely tied to the cost of replacing the service potential embodied in an asset. Measuring the current value of an asset at the cost of replacing the service potential embodied in the asset would enable users of financial statements to understand those costs. Depreciation based on that value would also better reflect the current cost of services during the current period, which would be important for assessing the intergenerational equity implications of the services received during the current period.

The Definition should Focus on the Cost of Replacing an Asset Used for its Service Potential

- AV7. In Mr. Beardsworth's view, current operational value should focus on the cost of replacing an asset using entry values and an entity-specific perspective (where the outcome of adopting that perspective differs from the outcome of adopting a market participant's perspective). This is because, in respect of operational assets, the asset's service potential is best represented by the cost the entity is currently required to incur in the marketplace at the measurement date to replace the asset.
- AV8. Mr. Beardsworth notes the importance of considering service potential when recognizing and measuring public sector assets (for example, see paragraphs 5.7 and 5.8 of the Conceptual Framework). ED 76 does not clearly state how the proposed definition of current operational value would reflect the service potential of an asset. His proposed definition would more clearly reflect the service potential of assets primarily held for operational capacity because it focuses on the cost of replacing an asset for its service potential.
- AV9. He considers that there is a clear link between his view of current operational value and the measurement objective in the Conceptual Framework. The cost of replacing the service potential embodied in an asset gives users information about the current cost of replacing an asset used by an entity to provide services. That information is useful for both decision making and accountability when assets are held for their operational capacity.

Alternative View on ED 77

- AV10. Mr. Beardsworth's alternative view on ED 77, *Measurement* also discusses his concerns with the definition of current operational value and the proposed standards-level requirements. ED 77, *Measurement* proposes that current operational value can be measured using market, cost or income approaches. For the reasons outlined in the alternative view expressed by Mr. Beardsworth and Mr. Blake in ED 77, he considers the income approach is not an appropriate technique for measuring current operational value.

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