

Exposure Draft 77
April 2021
Comments due: October 25, 2021

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

Measurement

IPSASB

International Public
Sector Accounting
Standards Board®

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In meeting this objective the IPSASB 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, *Measurement*, 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

The objective of this Exposure Draft (ED) is to:

- (a) Provide more detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used;
- (b) Address transaction costs; and
- (c) Where necessary, issue amended IPSAS with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure.

As part of the IPSASB’s focus on improving measurement guidance across IPSAS, the IPSASB also undertook a project to enhance the alignment between Chapter 7 of its Conceptual Framework and the suite of IPSAS. As ED 77, *Measurement* and ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* have been released at the same time, the SMCs related ED 76 have been included in this document immediately after the SMCs specific to ED 77, *Measurement* to provide constituents with a complete list of the SMCs developed for these projects. Please review and consider ED, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* when responding to those SMCs.

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—(paragraphs 7–16):

Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:

- That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or
- Otherwise required or permitted by another IPSAS?

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

Specific Matter for Comment 2—(paragraph 17):

Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model.

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

Specific Matter for Comment 3—Appendix A (paragraphs A1–A6):

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

Specific Matter for Comment 4—Appendix A (paragraphs A1–A6):

Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?

If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.

Specific Matter for Comment 5—(paragraph 6):

Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date?

If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why.

The Exposure Draft includes an [Alternative View](#) on current operational value.

Specific Matter for Comment 6—Appendix B (paragraphs B1–B41):

Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)?

If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.

Specific Matter for Comment 7—Appendix B (paragraphs B6–B7):

Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used?

If not, please provide your reasons, stating clearly why the asset should be measured at a different value.

Specific Matter for Comment 8—(paragraphs B38–B39):

Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis?

If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value.

The Exposure Draft includes an [Alternative View](#) on current operational value.

Specific Matter for Comment 9—Appendix C (paragraphs C1–C89):

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on fair value has been aligned with IFRS 13, *Fair Value Measurement* (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

Specific Matter for Comment 10—Appendix D (paragraphs D1–D48):

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

Specific Matter for Comment 11:

Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77?

If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.

Specific Matter for Comment 12:

Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, *Measurement*?

If yes, please provide your reasons, stating clearly what the disclosures are, and why.

Specific Matter for Comment 13:

Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.

If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

Specific Matter for Comment 14:

Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in [Appendix E: Amendments to Other IPSAS](#).

If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model.

Specific Matter for Comment 15:

Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy?

If not, please provide your reasons, stating clearly why disclosure requirements for inputs in the fair value hierarchy are unnecessary.

The Specific Matters for Comment requested for ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* are provided below. They are included to provide constituents with a complete list of SMCs related to measurement. Please review and consider ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* when responding to those SMCs.

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 77, MEASUREMENT

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Objective

1. **The objective of this [draft] Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The [draft] Standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.**

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] IPSAS [X], *Measurement* in measuring assets and liabilities.
3. Except as specified in paragraph 4, this [draft] Standard applies when another IPSAS requires or permits:
 - (a) One or more of the measurement bases defined in this [draft] Standard or disclosures about one or more of these measurement bases; and
 - (b) Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal) or disclosures about those measurements.
4. The measurement requirements of this [draft] Standard do not apply to the following:
 - (a) Leasing transactions accounted for in accordance with IPSAS 13, *Leases*;
 - (b) Transactions accounted for in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and
 - (c) Measurements that have some similarities to the measurement bases in this [draft] Standard but are not those measurement bases, such as net realizable value in IPSAS 12, *Inventories* or value in use in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets* (but this [draft] Standard is applied in measuring fair value as required in IPSAS 21 and 26).
5. The measurement requirements described in this [draft] Standard apply to both initial and subsequent measurement.

Definitions

6. **The following terms are used in this [draft] Standard with the meanings specified:**

Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Cost approach is a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Cost of fulfillment is the cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

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

Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

Exit price is the price received to sell an asset or paid to transfer a liability.

Expected cash flow is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.

Fair value 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.

Highest and best use is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.

Historical cost is the consideration given to acquire, construct or develop an asset, or the consideration received to assume an obligation, at the time the asset is acquired, constructed or developed, or the liability is incurred.

Income approach is a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.

Inputs are the assumptions used when pricing the asset or liability, including assumptions about risk, such as the following:

- (a) The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and
- (b) The risk inherent in the inputs to the measurement technique.

Inputs may be observable or unobservable.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Market approach is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- (a) They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Party Disclosures*, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
- (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.
- (c) They are able to enter into a transaction for the asset or liability.

- (d) They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.

Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Non-performance risk is the risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).

Principal market is the market with the greatest volume and level of activity for the asset or liability.

Risk premium is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

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

Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.

Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Measurement

Initial Measurement

7. On the date an item qualifies for recognition, it shall be initially measured at its transaction price, unless:

- (a) **That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or**
- (b) **Otherwise required or permitted by another IPSAS.**

When applying accrual basis IPSAS for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS should be carried out in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*.

Transactions in an Orderly Market

- 8. When an asset is acquired or a liability is assumed in an orderly market, the transaction price reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.
- 9. Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider factors specific to the transaction and to the asset or liability.

Transactions not Undertaken in an Orderly Market

- 10. When an asset is acquired, or a liability is assumed, as a result of an event that is not a transaction in an orderly market:
 - (a) It may not be possible to observe a transaction price;
 - (b) The transaction price may not faithfully present relevant information about the asset or liability; or
 - (c) The transaction price may be zero.

In some such cases, one or more current value measurement techniques are used to estimate the value of the asset or liability as a deemed cost on initial measurement. Current value measurement techniques are described in paragraphs 36–45.

- 11. Any difference between deemed cost and any consideration given or received would be recognized as revenue or expenses, unless otherwise required in the relevant IPSAS.
- 12. Circumstances where a transaction price may not be observable or may not faithfully present relevant information may include:
 - (a) The transaction price includes a concessionary element;
 - (b) An asset is transferred to the entity free of charge by a government or donated to the entity by another party;
 - (c) A liability might be imposed by legislation or regulation; or
 - (d) A liability to pay compensation or a penalty arises from an act of wrongdoing or breach of contract;
 - (e) The transaction price is affected by relationships between the parties, or by financial distress or other duress of one of the parties; and

- (f) The transaction price information is not available on the date of adoption of IPSAS as defined in IPSAS 33.
13. When assets are acquired, or liabilities assumed, as a result of an event that is not a transaction in an orderly market, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognize other assets, other liabilities, contributions from owners or distributions to owners to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.

Transaction Costs at Initial Measurement

14. Transaction costs incurred in acquiring an asset or incurring a liability are a feature of the transaction in which the asset was acquired, or liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired the asset or liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or in settling or transferring a liability are a feature of a possible future transaction. Unless explicitly required, possible transaction costs are not included because initial measurement reflects the costs of acquiring the asset or incurring the liability.

Transaction Occurring in Stages

15. The purchase of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the entity's own use. Any expenditures incurred in bringing the asset to the state where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.

Deferred Payments

16. Where the time value of money is material—for example, where the length of time before settlement falls due is significant—the amount of the future cash flows is discounted so that, at the time an asset or liability is first recognized, it represents the value of the amount received or paid. For example, the difference between the amount of the future cash flows and the present value of the asset or liability is amortized over the life of the asset or liability, so that the asset or liability is stated at the amount due to be received, or the required payment when it falls due.

Subsequent Measurement

17. After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability at historical cost or at its current value. This accounting policy choice is reflected through the selection of the measurement model.

Measurement Models

18. Assets and liabilities recognized in financial statements are quantified in historical terms or current terms. This requires the selection of a historical cost or current value measurement model. In selecting a measurement model, an entity shall consider the characteristics of the item, the measurement objective and the monetary information being presented.

Measurement Bases

19. A measurement basis provides information that achieves the qualitative characteristics, as described in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) and ensures the constraints on information in GPFRs are considered under the measurement model selected. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related revenue and expenses. The selection of a measurement basis depends on the measurement model applied (see diagram after paragraph 36).
20. **When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below, an entity shall apply the measurement basis in accordance with the requirements and related appendices in this [draft] Standard:**
- (a) **Historical cost (Appendix A: Historical cost);**
 - (b) **Current operational value (Appendix B: Current operational value);**
 - (c) **Fair value (Appendix C: Fair value); and**
 - (d) **Cost of fulfillment (Appendix D: Cost of fulfillment).**

Historical Cost

21. Historical cost is an entry, entity-specific value. Historical cost provides monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.
22. Following initial measurement, the value of an asset or liability is not remeasured to reflect current conditions or increases in the value of the asset or decreases in the value of the liability.

Current Operational Value

23. Current operational value is also an entry, entity-specific value. It provides monetary information about assets, and related revenues and expenses, using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.
24. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the entity's asset in its current use.
25. Current operational value differs from fair value because it:
- (a) Is explicitly an entry value and includes all the costs that would necessarily be incurred when obtaining the asset;
 - (b) Reflects the value of an asset in its current use, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and

- (c) Is entity-specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market (for example, the current operational value of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually).

Fair Value

- 26. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The fair value of an asset or liability is not dependent, even in part, on the transaction or event that gave rise to the asset or liability.
- 27. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.
- 28. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly.

Cost of Fulfillment

- 29. Cost of fulfillment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfillment is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfils a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfill the liability.
- 30. Cost of fulfillment cannot be observed directly and is determined using cash-flow-based measurement techniques. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would use and those an entity itself uses.
- 31. The cost of fulfillment reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.

Characteristics of the Asset or Liability

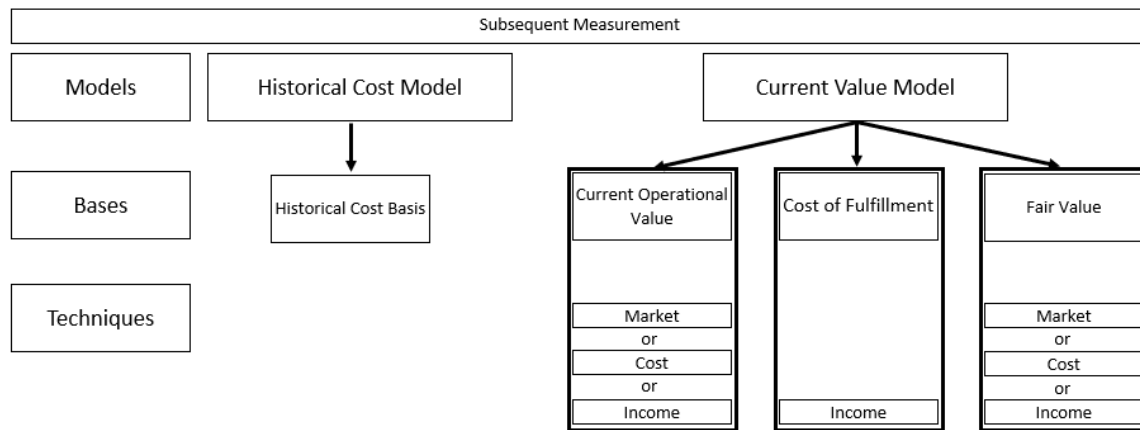
- 32. A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis, an entity shall take into account the characteristics of the asset or liability at the measurement date (for example, for fair value measurement the characteristics are considered if market participants would take those characteristics into account when pricing the asset or liability). Such characteristics include, for example, the following:
 - (a) The condition and location of the asset; and
 - (b) Restrictions, if any, on the sale or use of the asset.
- 33. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity, for entity-specific measurements, and by market participants, for market-based measurements.

34. The asset or liability measured might be either of the following:
- (a) A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or
 - (b) A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).
35. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this [draft] Standard, except where specified differently in this [draft] Standard.

Measurement Techniques

36. **An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to estimate the measurement basis or determine deemed cost.**

The following diagram sets out the measurement hierarchy for subsequent measurement based on ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*. This diagram illustrates the three levels of measurement and the relationships between them.



37. A measurement technique is applied to estimate the amount at which an asset or liability is recognized under the selected measurement basis or in determining deemed cost (see paragraph 10). Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 26–28.
38. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 42–45. An entity shall use measurement techniques consistent with one or more of those approaches to measure the asset or liability under the selected measurement basis.
39. In some cases, a single measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement techniques are used to measure the asset or liability under the selected measurement basis, the results shall be evaluated considering the reasonableness of the range of values indicated by those results.

40. Measurement techniques shall be applied consistently. However, a change in a measurement technique or its application (e.g., a change in its weighting when multiple measurement techniques are used or a change in an adjustment applied to a measurement technique) is appropriate if the change results in a measurement that is equally or more representative of the measurement basis in the circumstances. That might be the case if, for example, any of the following events take place:
- (a) New markets develop;
 - (b) New information becomes available;
 - (c) Information previously used is no longer available;
 - (d) Measurement techniques improve; or
 - (e) Market conditions change
41. Revisions resulting from a change in the measurement technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurement technique or its application.

Market Approach

42. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Cost Approach

43. The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.
44. The cost of a substitute asset of comparable utility is calculated as the cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset while using the latest technology available.

Income Approach

45. The income approach converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis reflects current expectations about those future amounts.

Depreciation, Impairment and Other Adjustments

46. Depreciation and impairment are applicable to measurement bases in the historical cost model and the current value model. Neither depreciation nor impairment are measurement bases or measurement techniques in their own right. They are methods to reflect the consumption of the asset or loss of the future economic benefits or service potential of the asset.

47. Under both the historical cost model and the current value model, an asset is updated over time to depict:
- (a) The consumption of part or all of the resource that constitutes the asset (depreciation or amortization);
 - (b) Payments received that extinguish part or all of the asset;
 - (c) The effect of events that cause part or all of the asset to no longer be recoverable (impairment); and
 - (d) Accrual of interest to reflect any financing component of the asset.
48. Under both the historical cost model and the current value model, a liability is updated over time to depict:
- (a) Fulfillment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods or services;
 - (b) The effect of events that increase the value of the obligation to transfer the resources needed to fulfill the liability to such an extent that the liability becomes onerous. A liability is onerous if the carrying amount is no longer sufficient to depict the obligation to fulfill the liability; and
 - (c) Accrual of interest to reflect any financing component of the liability.

Transaction Costs in Subsequent Measurement

49. **Transaction costs are incremental costs that would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.**
50. Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.
51. Costs attributable to the acquisition of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer (e.g., borrowing costs), are excluded from the definition of transaction costs.
52. Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether an entity is recognizing an asset or liability using an entry-based measurement basis or an exit-based measurement basis impacts whether those transaction costs are included in, or excluded from, the item's measurement.
53. Transaction costs can arise when an asset is acquired, constructed, or developed or a liability is incurred, when an asset is sold or disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring, constructing, or developing an asset or incurring a liability are a feature of the transaction in which the asset was acquired, constructed or developed, or the liability was incurred, such transaction costs incurred in entering into a transaction are included in entry-based measurement bases. Transaction costs that would be incurred in selling or disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction

costs that would be incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is entity-specific.

Effective Date and Transition

Effective Date

54. **An entity shall apply this [draft] Standard for annual periods beginning on or after MM DD, YYYY. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it must disclose that fact.**
55. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33 for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of accrual basis IPSAS.

Transition

56. This [draft] Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Historical Cost

This Appendix is an integral part of [draft] IPSAS [X] (ED 77).

Measurement

- A1. The objective of historical cost measurement is to provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction (or deemed cost, where applicable) or other event that gave rise to them.
- A2. Historical cost is:
- (a) The consideration given to acquire, construct and/or develop an asset;
 - (b) The consideration received to incur or take on a liability; or
 - (c) The deemed cost of the asset or liability or other event that gave rise to it.

Historical cost is the cash or cash equivalents or the value of the other consideration given or received, at the time, or period over which, the asset is acquired, constructed or developed or the liability is incurred.

Initial Measurement

- A3. Initial measurement is determined in accordance with paragraphs 7–16 of this [draft] Standard.

Subsequent Measurement

- A4. After initial measurement, the gross carrying amount of an asset or liability measured at historical cost remains unaffected by changes in the underlying current market conditions, unless those changes trigger an impairment. For example, the amount at which an item of property, plant, and equipment is recorded is not updated to reflect an increase in the current market price of the item after it has been acquired, constructed or developed.
- A5. However, as with current value measurements, the carrying amount of an asset or liability measured at historical cost is updated to reflect changes to the item as noted in paragraphs 47 and 48.

Amortized Cost

- A6. The historical cost measurement basis is applied to financial instruments by measuring the instruments at amortized cost in accordance with paragraph AG160 of IPSAS 41, *Financial Instruments*. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial measurement. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.

Current Operational Value

This Appendix is an integral part of [draft] IPSAS [X] (ED 77).

Measurement

- B1. The objective of a current operational value measurement is to estimate the value of a non-financial asset in achieving the entity's service delivery objectives at the measurement date. A current operational value measurement requires an entity to determine all of the following:
- (a) The asset that is the subject of the measurement (consistent with its unit of account).
 - (b) The current use of the asset by the entity.
 - (c) The measurement technique(s) appropriate for estimating the entry price of the asset based on its current use, considering the availability of data with which to develop inputs that represent the assumptions that are specific to the entity.
- B2. Current operational value measures the value to the entity of an asset held for its operational capacity in its current use.
- (a) In the statement of financial position, current operational value reflects the amount an entity would incur at the measurement date to acquire its existing assets to be able to continue to achieve its present service delivery objectives.
 - (b) In the statement of financial performance, current operational value reflects the value of the assets consumed in providing the service at the prevailing prices. This differs from historical cost, which reflects consumption of the assets in terms of the prices that prevailed when the assets were acquired and initially recognized.

Service Delivery Objectives

- B3. An asset supports an entity in achieving its service delivery objectives in its current use. 'Current use' is the current way an asset or group of assets is used. Current use generally reflects the policy objectives of the entity operating the asset. For example, a Ministry of Health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to achieve the policy objective rather than for commercial purposes.
- B4. Measuring the current use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, a building operated as a school is currently used as a school. Alternative uses, such as the operation of the building as an office block held for rental at market rates, are not considered. The current use may be, but is not necessarily, the highest and best use.

The Value of an Asset

- B5. Current operational value measures the value of an asset, or group of assets, used in supporting the achievement of an entity's present service delivery objectives. The following key aspects affect the measurement of an asset's current operational value:
- (a) Location of the asset;
 - (b) Entity-specific value;

- (c) Surplus capacity;
- (d) Restrictions; and
- (e) The least costly manner to achieve its service delivery objectives.

The Location of the Asset

- B6. The asset's current operational value assumes that the entity will continue to meet its service delivery objectives from the same location in which the asset is currently situated or used.
- B7. The current operational value of a building reflects the value of the building in its current location. For example, a hospital operating in a city center that could now be situated in the suburbs, because of the migration of the population, is measured based on the value of the hospital in its current location (e.g., if the cost approach is applied, construction costs, permits, regulations, etc. are based on costs incurred at the current location).

Entity-Specific Value

- B8. An entity shall measure the current operational value of an asset using the assumptions from the entity's perspective, assuming that entity acts in accordance with its policy objectives.
- B9. An asset's current operational value represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.

Surplus Capacity

- B10. Surplus capacity exists when an asset is not used to its maximum capacity. For example, an entity owns a building, but only utilizes 80% of the space available. The remaining 20% is left vacant.
- B11. Since current operational value reflects the value of the asset consumed in providing the service at the prevailing prices, current operational value assumes the asset is used to its full capacity, subject to any tests for impairment in accordance with IPSAS 21 or IPSAS 26.
- B12. For example, the current operational value of land shall reflect the value of the land actually held, in terms both of size and location. If the services could be provided from a site measuring three hectares, but the actual site measures five hectares, the land is measured based on its actual size.

Restrictions

- B13. Many assets are subject to restrictions on their use or sale and/or the price an entity can charge users of the services provided by the asset, where the restriction is legally enforceable and cannot be revoked unilaterally by the entity holding the asset. Such legally enforceable restrictions may arise from legislation, planning authorities, ministerial decisions or instructions from governments or other authorities.
- B14. The current operational value of restricted assets shall be measured as follows:
 - (a) If an equivalent restricted asset is obtainable in the orderly market at the measurement date for a price supported by observable market evidence, the asset is measured based on the available market evidence for the equivalent restricted asset, without any further reduction for the restrictions; or

- (b) If an equivalent restricted asset is not obtainable in an orderly market at the measurement date for a price supported by observable market evidence, the asset is measured at the price of an equivalent unrestricted asset, without a reduction for the restrictions.
- B15. An equivalent asset – whether restricted or unrestricted – should be an asset that reflects the same characteristics as the asset being measured. For example, if the asset being measured is contaminated, an equivalent asset should be a contaminated asset. If the equivalent asset has a different service capacity from the asset being measured (although necessarily the same nature), market comparison techniques are used to adjust for the difference between the capacity of the entity’s asset being measured and the capacity of the equivalent reference asset. For example, a public sector entity could measure a school asset using the price of a recently constructed school in a neighboring district that has double the student capacity, with adjustments for the difference in capacity and any other difference in value if the reference asset provides different amenity. Despite differing capacities or amenity, the nearby school is an equivalent asset because it provides services of the same nature as the school being measured.
- B16. For the purposes of paragraph B14:
- (a) An equivalent restricted asset is an asset that provides services of the same nature as those the entity’s asset provides in its current use and that is subject to the same restriction(s) on use, sale and/or pricing as the entity’s asset; and
- (b) An equivalent unrestricted asset is an asset that provides services of the same nature as those the entity’s asset provides in its current use but is not subject to all the restrictions imposed on the entity’s asset. When an equivalent restricted asset is not obtainable in an orderly market, but one or more equivalent assets subject to some of the restrictions applying to the entity’s asset are obtainable in an orderly market, the equivalent “unrestricted” asset used as a reference asset for measuring the entity’s restricted asset is that which most closely shares the restrictions to which the entity’s asset is subject.
- B17. The current operational value of a restricted asset measured under paragraph B14 by reference to observable market evidence for an equivalent asset is not reduced to reflect the restrictions. In respect of assets measured under paragraph B14(a), the market entry price of an equivalent restricted asset would already reflect any effects that the restrictions have on the current entry price of the service potential embodied in the asset. In respect of assets measured under paragraph B14(b), the restrictions would not reduce the current entry price of the service potential embodied in the asset (the cost that the entity currently would need to incur) if the entity needs to purchase an unrestricted replacement asset to continue delivering services of the same nature and volume.

The Least Costly Manner

- B18. A current operational value measure assumes the amount an entity would incur at the measurement date to be able to continue to achieve its service delivery objectives using its existing assets is incurred in the least costly manner. For example, using a modern equivalent asset to estimate the current operational value requires identifying a notional asset using the latest technology available. However, the latest technology available does not imply the most advanced technology available, as this may not be the least costly manner to achieve the entity’s service delivery objective.

- B19. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.
- B20. Current operational value reflects the amount an entity would incur to be able to continue to achieve its present service delivery objectives using its existing assets in the ordinary course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event.

Initial Recognition

- B21. If another IPSAS requires or permits an entity to measure an asset initially at current operational value and the transaction price differs from current operational value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.

Measurement Techniques

- B22. In some cases, current operational value cannot be determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available only for new assets, the current operational value of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.
- B23. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
- B24. The objective of using a measurement technique is to estimate the value of the asset used to achieve the entity's present service delivery objectives at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs B26–B41. An entity shall use measurement techniques consistent with one or more of those approaches to measure current operational value.
- B25. If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current operational value measurement is the point within that range that is the most representative value of the asset in its current use in the circumstances.

Market Approach

- B26. Applying the market approach to measure the current operational value of an asset requires the existence of market transactions involving identical or comparable assets.
- B27. In many cases, the current operational value of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. For example, the current operational value of a property or motor vehicles may be established by reference to the indexed price for the same or a similar asset based on a price for a previous period.
- B28. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach, an asset with an

identical or similar remaining useful life, service potential, etc. must be identified. A similar asset may exist when an asset, comparable to that being valued, was recently acquired, constructed or developed.

Cost Approach

- B29. Applying the cost approach to measure the current operational value of an asset involves considering the current replacement cost of the asset.
- B30. There are various examples in the public sector of assets whose specifications are such that there are few (if any) similar assets and a market approach to assessing a current operational value is unlikely to be appropriate.
- B31. The current operational value of an asset will likely be established by reference to the amount required to replace the asset when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will be applied. For example, the current operational value of a school may be established by reference to the market buying price of components used to produce the school.

Modern Equivalent Asset

- B32. In general, the current operational value is estimated by calculating the cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset in its current use while using the latest technology available¹—and then making deductions for obsolescence and optimization.
- B33. It may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as a historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent does not represent the heritage value of the asset.
- B34. An entity should consider very carefully whether to use a reproduction cost (or restoration cost) to determine current operational value. Such considerations should include whether there is a statutory or other requirement to replace an asset with what is essentially a replica and whether an exact reproduction is possible; if not, then a technique that assesses the replacement of a modern equivalent asset is likely to be more appropriate for financial reporting purposes.
- B35. The cost of a modern equivalent asset will reflect the amount that would be incurred if the works were commissioned on the measurement date. However, there are factors that may result in the cost of a notional replacement being different from that of creating the actual asset:
 - (a) Phasing of work. A large site may have been developed in phases. The cost of a modern equivalent asset would normally be based on a single-phase development, and this should be measured at the building cost at the measurement date. A single-phase development may still occur over an extended period of time. If the entity does not capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*, the entity should disregard any financing costs in measuring the modern equivalent asset.

¹ The latest technology available is evaluated in the context of the current use of the asset and its replacement in the least costly manner (see paragraph B18). A modern equivalent asset need not use the most advanced technology available, but it must be based on the technological standard at the measurement date.

- (b) Additional costs arising from extending an existing property – These costs should be ignored, since the norm is that the valuation will be of a modern equivalent asset.
- (c) Contract variations. Additional construction costs because of design or specification changes should be ignored. The modern equivalent asset being valued will have the same service capacity as the existing asset in its current use.
- (d) Planning changes. Entities should consider whether planning consent would need to be obtained were the modern equivalent asset to be constructed on the actual site.

B36. Deductions are made for the following forms of obsolescence:

- (a) Physical Obsolescence. Physical obsolescence relates to any loss of service capacity due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration.
- (b) Functional Obsolescence. Functional obsolescence relates to any loss of service capacity resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.
- (c) Economic (or External) Obsolescence. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.

B37. It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.

Income Approach

B38. The income approach converts future amounts (e.g., cash flows or revenues and expenses) to a single current amount. This approach may be applicable to estimate the value of an asset measured using the current operational value when:

- (a) The use of multiple measurement techniques is appropriate (e.g., the use of a market approach and a present value technique). Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. When the timing of an outflow differs from the measurement date, that amount should be discounted to its value at the measurement date when estimating current operational value. For example, when establishing the current operational value of a school by reference to the construction of a substitute asset, i.e., the cost approach, costs incurred over the construction period should be discounted to the measurement date using the present value techniques outlined in the income approach (see paragraphs B40–B41 which describe the use of present value techniques).

- (b) Information is unavailable to support the application of the market or cost approach. Discounting the future cash inflows generated by an asset will generally not reflect the amount an entity would currently incur to acquire its assets to be able to continue to achieve its present service delivery objectives. However, in some cases the income approach may be the best approximation of current operational value when cost or market information is unavailable. For example, heritage items that are naturally occurring, such as cave paintings, or natural resources are unlikely to have cost or market information related to the specific asset. However, the asset may generate cash inflows through tourism, a royalty stream, etc. that may be relevant in determining the current operational value.
- B39. Applying the income approach shall take into account the attributes of the asset. This includes:
- (a) Estimates of future cash flows;
 - (b) Possible variations in the estimated amount or timing of future cash flows for the asset being measured, caused by the uncertainty inherent in the cash flows;
 - (c) The time value of money;
 - (d) The price for bearing the uncertainty inherent in the cash flows (a risk premium). The price for bearing that uncertainty depends on the extent of that uncertainty; and
 - (e) Other factors.
- B40. Paragraphs C37–C54 describe the use of present value techniques. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure current operational value to the techniques discussed. The present value technique used to measure current operational value will depend on facts and circumstances specific to the asset being measured (e.g., whether prices for comparable assets can be observed in the market) and the availability of sufficient data.
- B41. When applying paragraphs C37–C54 in the context of measuring current operational value, an entity should perform the measurement from the perspective of the entity holding the asset rather than from the perspective of the market participant as noted in paragraphs C37(e), C38(a), C40, C41(c), C48, and C49.

Fair Value

This Appendix is an integral part of [draft] IPSAS [X] (ED 77).

Measurement

- C1. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:
- (a) The particular asset or liability that is the subject of the measurement (consistently with its unit of account);
 - (b) For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);
 - (c) The principal (or most advantageous) market for the asset or liability; and
 - (d) The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

The Transaction

- C2. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.
- C3. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
- (a) In the principal market for the asset or liability; or
 - (b) In the absence of a principal market, in the most advantageous market for the asset or liability.
- C4. An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.
- C5. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement technique), even if the price in a different market is potentially more advantageous at the measurement date.
- C6. The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset

or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.

- C7. Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.
- C8. Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

Market Participants

- C9. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
- C10. In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:
 - (a) The asset or liability;
 - (b) The principal (or most advantageous) market for the asset or liability; and
 - (c) Market participants with whom the entity would enter into a transaction in that market.

The Price

- C11. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurement technique.
- C12. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other IPSAS. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.
- C13. Transaction costs do not include transport costs. If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

Application to non-financial assets*Highest and Best Use for Non-Financial Assets*

- C14. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
- C15. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:
- (a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property).
 - (b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property).
 - (c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate revenue or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.
- C16. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.
- C17. To protect the public interest, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset, such as a drug patent, that the entity plans to use to manufacture vaccines for its citizens. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

Valuation Premise for Non-Financial Assets

- C18. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:
- (a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation).
 - (i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants.

- (ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.
 - (iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.
- (b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.
- C19. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IPSAS (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.
- C20. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For example:
- (a) The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).
 - (b) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).
 - (c) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods.

- (d) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the measurement technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurement technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.
- (e) In more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).

Fair Value at Initial Recognition

- C21. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.
- C22. In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).
- C23. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph C25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.
- C24. If another IPSAS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.
- C25. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:
 - (a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
 - (b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
 - (c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that

are measured separately in accordance with another IPSAS, or the transaction price includes transaction costs.

- (d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.
- (e) The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).

Measurement Techniques

- C26. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.
- C27. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
- C28. The objective of using a measurement technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs C31–C36. An entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.
- C29. If multiple measurement techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.
- C30. If the transaction price is fair value at initial recognition and a measurement technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the measurement technique shall be calibrated so that at initial recognition the result of the measurement technique equals the transaction price. Calibration ensures that the measurement technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the measurement technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurement technique). After initial recognition, when measuring fair value using a measurement technique or techniques that use unobservable inputs, an entity shall ensure that those measurement techniques reflect observable market data (e.g., the price for a similar asset or liability) at the measurement date.

Market Approach

- C31. Measurement techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgment, considering qualitative and quantitative factors specific to the measurement.

- C32. Measurement techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

Cost Approach

- C33. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Market Participant

- C34. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

Income Approach

- C35. When estimating fair value, the income approach can be applied using several methods. Those methods include, for example, the following:
- (a) Present value techniques (see paragraph C36);
 - (b) Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and
 - (c) The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Present Value Techniques

- C36. Paragraphs C37–C54 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The Components of a Present Value Measurement

- C37. Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A measurement of an

asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:

- (a) An estimate of future cash flows for the asset or liability being measured.
- (b) Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.
- (c) The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).
- (d) The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium).
- (e) Other factors that market participants would take into account in the circumstances.
- (f) For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.

General Principles

C38. Present value techniques differ in how they capture the elements in paragraph C37. However, all the following general principles govern the application of any present value technique used to measure fair value:

- (a) Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.
- (b) Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.
- (c) To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- (d) Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.
- (e) Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and Uncertainty

- C39. A measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.
- C40. Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.
- C41. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:
- (a) The discount rate adjustment technique (see paragraphs C42–C46) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.
 - (b) Method 1 of the expected present value technique (see paragraph C49) uses risk-adjusted expected cash flows and a risk-free rate.
 - (c) Method 2 of the expected present value technique (see paragraph C50) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

Discount Rate Adjustment Technique

- C42. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).
- C43. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a 'build-up' approach).
- C44. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

- (a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent $[(CU1,200/CU1,083) - 1]$.
 - (b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent $[(CU700/CU566)^{0.5} - 1]$.
 - (c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).
- C45. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the value of Asset A is CU722 $(CU800/1.108)$. Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.
- C46. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

Expected Present Value Technique

- C47. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).
- C48. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:
- (a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.
 - (b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

- C49. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.
- C50. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.
- C51. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

Possible cash flows	Probability	Probability-weighted cash flows
CU500	15%	CU75
CU800	60%	CU480
CU900	25%	CU225
Expected cash flows		CU780

- C52. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.
- C53. In theory, the present value of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:

- (a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent (CU780 – [CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of CU758 (CU780 – CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is CU722 (CU758/1.05).
- (b) Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value of the asset is CU722 (CU780/1.08).

C54. When using an expected present value technique, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgments applied.

Inputs to Measurement Techniques

General Principles

- C55. Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.
- C56. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following:
 - (a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange.
 - (b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment).
 - (c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.

- (d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.
- C57. An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 32 and 33). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IPSAS that requires or permits the fair value measurement (see paragraphs 34 and 35). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph C66) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph C65.

Fair Value Hierarchy

- C58. To increase consistency and comparability in fair value measurements and related disclosures, this Appendix establishes a fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value (see paragraphs C62–C89). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).
- C59. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs of disposal, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.
- C60. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurement techniques (see paragraph C27). However, the fair value hierarchy prioritizes the inputs to measurement techniques, not the measurement techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.
- C61. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If

that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.

Level 1 Inputs

- C62. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- C63. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph C65.
- C64. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:
- (a) The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and
 - (b) Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.
- C65. An entity shall not make an adjustment to a Level 1 input except in the following circumstances:
- (a) When an entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.
 - (b) When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.
 - (c) When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph AG143F of IPSAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.

- C66. If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 Inputs

- C67. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- C68. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:
- (a) Quoted prices for similar assets or liabilities in active markets.
 - (b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (c) Inputs other than quoted prices that are observable for the asset or liability, for example:
 - (i) Interest rates and yield curves observable at commonly quoted intervals;
 - (ii) Implied volatilities; and
 - (iii) Credit spreads.
 - (d) Market-corroborated inputs.
- C69. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:
- (a) The condition or location of the asset;
 - (b) The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph AG143F of IPSAS 41); and
 - (c) The volume or level of activity in the markets within which the inputs are observed.
- C70. An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.
- C71. Paragraph C72 describes the use of Level 2 inputs for particular assets and liabilities.
- C72. Examples of Level 2 inputs for particular assets and liabilities include the following:
- (a) Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.
 - (b) Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory

items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.

- (c) Building held and used. A Level 2 input would be the price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations.
- (d) Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational, market, financial and non-financial factors.

Level 3 Inputs

- C73. Level 3 inputs are unobservable inputs for the asset or liability.
- C74. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.
- C75. Assumptions about risk include the risk inherent in a particular measurement technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurement technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs C76–C86).

Measuring Fair Value when the Volume or Level of Activity for an Asset or a Liability has Significantly Decreased

- C76. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:
 - (a) There are few recent transactions.

- (b) Price quotations are not developed using current information.
 - (c) Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets).
 - (d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
 - (e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.
 - (f) There is a wide bid-ask spread or significant increase in the bid-ask spread.
 - (g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities.
 - (h) Little information is publicly available (e.g., for transactions that take place in a principal-to-principal market).
- C77. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).
- C78. This Appendix does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs C26–C29 and C31–C40 for a discussion of the use of measurement techniques when measuring fair value. Regardless of the measurement technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph C48). Otherwise, the measurement does not faithfully represent fair value. In some cases determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.
- C79. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurement technique or the use of multiple measurement techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurement techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market

conditions. A wide range of fair value measurements may be an indication that further analysis is needed.

- C80. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.
- C81. Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgment. An entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

Identifying Transactions that are not Orderly

- C82. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:
- (a) There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
 - (b) There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
 - (c) The seller is in or near bankruptcy or receivership (i.e., the seller is distressed).
 - (d) The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced).
 - (e) The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

- C83. An entity shall consider all the following when measuring fair value or estimating market risk premiums:
- (a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.
 - (b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:

- (i) The volume of the transaction.
 - (ii) The comparability of the transaction to the asset or liability being measured.
 - (iii) The proximity of the transaction to the measurement date.
- (c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

Using Quoted Prices Provided by Third Parties

- C84. This Appendix does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Appendix.
- C85. If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a measurement technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.
- C86. Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.
- C87. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g., an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.
- C88. Paragraph C89 describes the use of Level 3 inputs for particular assets and liabilities.

- C89. Examples of Level 3 inputs for particular assets and liabilities include the following:
- (a) Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.
 - (b) Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.
 - (c) Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.
 - (d) Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfill the obligation (including market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.
 - (e) Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

Cost of Fulfillment

This Appendix is an integral part of [draft] IPSAS [X] (ED 77).

Measurement

- D1. The objective of the cost of fulfillment measurement is to estimate the value of a liability assuming the entity will fulfill its obligation in the least costly manner. A cost of fulfillment measurement requires an entity to determine all the following:
- (a) The particular liability that is the subject of the measurement (consistently with its unit of account).
 - (b) The manner in which the liability will be settled.
 - (c) The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs when pricing the liability.

The Least Costly Manner

- D2. The cost of fulfillment assumes that the liability is settled by the entity in the least costly manner.
- D3. The cost of fulfillment represents the amount the entity is obligated to incur to settle the liability. This obligation represents the minimum amount an entity will incur assuming the entity completely satisfies its obligation. For example, an entity may have an obligation to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfill the minimum obligation of restoring the land to its original condition and therefore are not representative of the cost to fulfill the liability. In cases where an entity intends to fulfill the liability beyond its commitment, guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, should be applied when accounting for amount in excess of the cost to fulfill.
- D4. The entity must have the ability to access the fulfillment method that results in the obligation being settled in the least costly manner at the expected fulfillment date. Because different entities (and operations within those entities) with different activities may have access to a variety of fulfillment methods, the least costly manner for the same liability might be different for different entities (and operations within those entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities and circumstances.
- D5. An entity need not undertake an exhaustive search of all fulfillment methods to identify the least costly manner of fulfillment, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of fulfillment is presumed to be the manner in which the entity has currently selected to release itself from the obligation. For example, if an entity elects to fulfill its decommissioning liability using its own employees, it is presumed this is the least costly manner of fulfillment, regardless of the entity's ability to contract the decommissioning to third parties.
- D6. 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 and the entity has the ability to access the fulfillment method (see paragraph D4).

- D7. 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 amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.

Entity-Specific Value

- D8. The cost of fulfillment is an entity-specific value. An entity shall measure the cost of fulfillment of a liability using the assumptions from the entity's perspective, assuming the entity acts in accordance with its own public sector objective.
- D9. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following:
- (a) The liability;
 - (b) The entity's expectations about the amount and timing of future outflows of resources; and
 - (c) The time value of money.

Whether a risk premium is included in the calculation will depend on guidance in the relevant IPSAS.²

- D10. When estimating market-based assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.

The Cost that the Entity Will Incur

- D11. The cost of fulfillment estimates the cost assuming the entity settles obligation.
- D12. A cost of fulfillment measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the entity expects to incur to satisfy the obligation. Those future outflows of resources include the amounts:
- (a) To be transferred to the liability counterparty; and
 - (b) The entity expects to be obliged to transfer to other parties to settle the liability.
- D13. The price used to measure the cost of fulfilling the liability shall not be adjusted for transaction costs incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the entity expects to incur. In contrast, transaction costs that are expected to be incurred in settling the liability, i.e., exit-based, are a future outflow of resources that is relevant in measuring the cost to fulfill the liability and are included in measuring the cost of fulfillment.

² When including a risk premium in measuring cost of fulfillment, an entity should perform the measurement from the perspective of the entity holding the liability rather than from the perspective of the market participant as noted in paragraph D8.

- D14. 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.
- D15. Where fulfillment of the obligation 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 using a measurement technique. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the obligation to be settled within one year.

Settling its Obligations

- D16. The cost of fulfillment is the cost that the entity expects to incur to settle its obligation in the normal course of operations.
- D17. In estimating the cost to settle its obligation in the normal course of operations, the entity assumes the obligation will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.
- D18. In estimating the cost of fulfillment the entity takes into account all readily available information at the measurement date under current market conditions in estimating the outflow of resources required to settle the liability at the expected fulfillment date.
- D19. The cost of fulfillment shall not include the non-performance risk of the entity to settle its obligation. A cost of fulfillment measurement is a measure of the value of a liability assuming the entity will fulfill its obligations. As non-performance risk takes into account the effect on the value of a liability of the entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of fulfillment measurement assumes the liability will be fulfilled in the normal course of operations.

Measurement Techniques

- D20. The cost of fulfillment cannot be observed directly in an active market. It is determined using measurement techniques.
- D21. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure the cost of fulfillment. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.
- D22. The objective of using a measurement technique is to estimate the cost that the entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions. The most commonly used valuation approach when measuring the cost of fulfillment is an income approach. The main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs D23–D48.

Income Approach

- D23. Applying the income approach to estimate the cost of fulfillment shall take into account the attributes of the cost of fulfillment measurement basis. This includes:
- (a) Estimates of future cash flows.

- (b) Possible variations in the estimated amount or timing of future cash flows for liability being measured, caused by the uncertainty inherent in the cash flows.
 - (c) The time value of money.
 - (d) Other factors that impact the value of the liability.
- D24. Paragraphs D25–D48 describe the use of present value techniques to measure the cost of fulfillment. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the cost of fulfillment to the techniques discussed. The present value technique used to measure the cost of fulfillment will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.

Future Outflows of Resources

- D25. The estimates of outflows of resources used to determine the cost of fulfillment shall include all inflows of resources and outflows of resources that relate directly to the fulfillment of the liability. Those estimates shall:
- (a) Be explicit (i.e., the entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources);
 - (b) Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs D30–D34);
 - (c) Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the entity fulfills the liability (see paragraph D35); and
 - (d) Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs D36–D40).

Uncertainty and the Expected Value Approach

- D26. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources are not conditional upon the occurrence of any specified event (unlike the outflows of resources used in the discount rate adjustment technique).
- D27. In determining the expected outflows of resources an entity must:
- (a) Identify each possible outcome;
 - (b) Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome; and
 - (c) Make an unbiased estimate of the probability of each outcome.

- D28. Paragraph D27 requires the estimate of expected values reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.
- D29. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph D2 assumes that the liability is settled by the entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.

Market Variables and Non-Market Variables (Paragraph D25(b))

- D30. This Appendix identifies two types of variables:
- (a) Market variables—variables that can be observed in, or derived directly from, markets (e.g., interest rates); and
 - (b) Non-market variables—all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).

Market Variables

- D31. Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall not substitute its own estimates for observed market prices except as described in paragraph C59. In accordance with Appendix C, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.

Non-Market Variables

- D32. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.
- D33. Non-market external data (e.g., national statistics for decommissioning of a nuclear power facility) may have more or less relevance than internal data (e.g., internally developed statistics for decommissioning of a nuclear power facility), depending on the circumstances.
- D34. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

Estimating Probabilities of Future Payments (Paragraph D25(c))

- D35. An entity estimates the probabilities associated with future payments on the basis of:
- (a) Information about the known or estimated characteristics of the liability; and
 - (b) Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted if, for example:

- (i) The characteristics of the liability differ (or will differ, for example because of adverse selection) from those of the population that has been used as a basis for the historical data;
- (ii) There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or
- (iii) There have been changes in the entity's practices or procedures that may affect the relevance of historical data to the liability.

Under Current Estimates (Paragraph D25(d))

- D36. In estimating the probability of each outflow of resources scenario, an entity shall use all of the available current information at the measurement date. An entity shall review the estimates of the probabilities that it made at the end of the previous measurement date and update them for any changes. In doing so, an entity shall consider whether:
- (a) The updated estimates faithfully represent the conditions at the end of the measurement date; and
 - (b) The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.
- D37. The probability assigned to each scenario shall reflect the conditions at the measurement date. Consequently, in accordance with IPSAS 14, *Events After the Reporting Date*, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommission. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with IPSAS 14, that a non-adjusting event occurred after the end of the reporting period).

Future Events (Paragraph D25(d))

- D38. Estimates of non-market variables shall consider not just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods decreasing decommissioning costs. The determination of the outflow of resources reflects

the probabilities that would be assigned to each possible trend scenario in the light of all the available evidence.

- D39. Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.
- D40. When estimating the outflow of resources associated with fulfilling the liability, an entity shall take into account future events that might affect the outflow of resources. The entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, an entity shall not take into account future events, such as a change in legislation, that would change or discharge the present obligation or create new obligations under the existing liability.

Time Value of Money

- D41. Entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.
- D42. An entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall:
- (a) Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity.
 - (b) Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.
- D43. When using a risk-free rate, the logical sources of reference rates are high quality bonds, for example, bonds issued by a financially sound government. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.
- D44. Although rates on high quality government bonds will not need to be adjusted for default risk in determining the risk-free discount rate, they may need to be adjusted for liquidity risk. Some government bonds are traded in deep and liquid markets enabling bond holders to readily sell them at minimal cost. The rate payable on such bonds is lower than the rate payable on an equivalent illiquid bond. Accordingly, it might be necessary to include a 'premium for illiquidity' in the observed rate for government bonds that are not traded in deep and liquid markets.

Inputs to Measurement Techniques

General Principles

- D45. Measurement techniques used in a cost of fulfillment measurement reflects entity-specific assumptions rather than assumptions used by market participants.
- D46. The cost of fulfillment measurement is an entity-specific valuation. When a measurement technique is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph D10). The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the entity, from the entity's perspective. For example, when measuring the cost to fulfill a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the entity.
- D47. In some cases, the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However, a cost of fulfillment measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the IPSAS that requires or permits the cost of fulfillment measurement.
- D48. When a liability will settle at a future date, the assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on fulfillment and the associated discount rate are both based on information available at the measurement date.

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 133, 134, 141, and 143 are amended. Paragraph 153S is added. New text is underlined and deleted text is struck through.

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Structure and Content

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Notes

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Disclosure of Accounting Policies

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133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, ~~current cost, net realizable value,~~ fair value, cost of fulfillment, or current operational value ~~recoverable amount, or recoverable service amount~~), because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the current value model ~~fair value~~ or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSASs specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, IPSAS 17 requires disclosure of the measurement bases used for classes of property, plant, and equipment. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

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Key Sources of Estimation Uncertainty

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143. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of ~~recently observed market prices~~ a quoted price in an active market used to measure the following assets and liabilities, future-oriented estimates are necessary to measure (a) the

APPENDIX E

recoverable amount of certain classes of property, plant, and equipment, (b) the effect of technological obsolescence on inventories, and (c) provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

...

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on ~~recently observed market prices~~ a quoted price in an active market for an identical asset or liability. ~~(their~~ Such fair values might change materially within the next financial year, but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

...

Effective Date

...

- 153S. **Paragraphs 133, 134, 141, and 143 were amended by [draft] IPSAS [X] (ED 77), *Measurement*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.**

...

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 57 is amended. Paragraph 59F is added. New text is underlined and deleted text is struck through.

...

Impracticability in Respect of Retrospective Application and Retrospective Restatement

...

57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:
- (a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and
 - (b) Would have been available when the financial statements for that prior period were authorized for issue;

from other information. For some types of estimates (e.g., ~~an estimate of a fair value measurement that uses significant unobservable not based on an observable price or observable~~ inputs), it is impracticable to distinguish these types of information. When retrospective application or

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retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

...

Effective Date

...

- 59F. Paragraph 57 was amended by [draft] IPSAS [X] (ED 77), *Measurement*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 27 and A5 are amended. Paragraph 71H is added. New text is underlined and deleted text is struck through.

...

Reporting Foreign Currency Transactions in the Functional Currency

...

Reporting at Subsequent Reporting Dates

27. At each reporting date:
- (a) Foreign currency monetary items shall be translated using the closing rate;
 - (b) Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
 - (c) Non-monetary items that are measured at fair value or current operational value in a foreign currency shall be translated using the exchange rates at the date when the fair value or current operational value was ~~determined~~ measured.

...

Effective Date

...

- 71H. Paragraphs 27 and A5 were amended by [draft] IPSAS [X] (ED 77), *Measurement*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Appendix A**Foreign Currency Transactions and Advance Consideration***This Appendix is an integral part of IPSAS 4.*

...

Scope

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A5. This Appendix does not apply when an entity measures the related asset, expense or revenue on initial recognition:

- (a) At fair value or current operational value; or

...

Amendments to IPSAS 9, Revenue from Exchange Transactions

Paragraph 11 is amended. Paragraph 41E is added. New text is underlined and deleted text is struck through.

...

Definitions

11. The following terms are used in this Standard with the meanings specified:

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

~~Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.~~

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. Fair value is defined in [draft] IPSAS [X] (ED 77), Measurement.

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- 41E. [Draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY, includes a new definition of fair value that replaces the definition previously found in paragraph 11. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Amendments to IPSAS 10, *Financial Reporting in a Hyperinflationary Economy*

Paragraph 31 is amended. Paragraph 38G is added. New text is underlined and deleted text is struck through.

...

The Restatement of Financial Statements

...

Corresponding Figures

31. Corresponding figures for the previous reporting period, whether they were based on a historical cost ~~approach model~~ or a current ~~cost approach~~ value model, are restated by applying a general price index, so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4 apply.

...

Effective Date

...

- 38G. Paragraph 31 was amended by [draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Amendments to IPSAS 12, *Inventories*

Paragraph 10 is amended. Paragraphs 50A–50F, and 51K are added. New text is underlined and deleted text is struck through.

...

Definitions

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Net Realizable Value

10. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. ~~Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace.~~ Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs ~~to sell~~ of disposal.

...

Disclosure

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Current Value Measurement

- 50A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**
- (a) **For inventories that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.**
 - (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**
- 50B. To meet the objectives in paragraph 50A, an entity shall consider all the following:
- (a) The level of detail necessary to satisfy the disclosure requirements;
 - (b) How much emphasis to place on each of the various requirements;
 - (c) How much aggregation or disaggregation to undertake; and
 - (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 50A, an entity shall disclose additional information necessary to meet those objectives.

- 50C. To meet the objectives in paragraph 50A, an entity shall disclose, at a minimum, the following information for each class of inventories (see paragraph 50D for information on determining appropriate classes of inventories) measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:
- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of inventories are those that this Standard requires or permits in the statement of financial position at the end of each

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- reporting period. Non-recurring fair value measurements of inventories are those that this Standard requires or permits in the statement of financial position in particular circumstances.
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3).
- (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.
- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
- (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
- (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
- (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those inventories held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized.
- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
- (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a

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different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

50D. An entity shall determine appropriate classes of inventories on the basis of the following:

- (a) The nature, characteristics and risks of the inventories; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of inventories for which disclosures about fair value measurements should be provided requires judgement. A class of inventories will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an inventory, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

50E. For each class of inventories not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 50C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, required by paragraph 50C(c). For such inventories, an entity does not need to provide the other disclosures required by this Standard.

50F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

Effective Date

...

51K. Paragraph 10 was amended, and paragraphs 50A–50F were added by [draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

...

Revision of IPSAS 12 as a result of [draft] IPSAS [X] (ED 77), Measurement

BC9. The IPSASB developed [draft] IPSAS [X] (ED 77), to ensure that measurement bases were applied consistently to all transactions. This pronouncement amends IPSAS 12 by:

- (a) Updating the definition of fair value to clarify its application across IPSAS and align with IFRS; and
- (b) Adding fair value disclosure requirements to help users assess the measurement techniques and inputs used to measure inventory at fair value and the effect on surplus or deficit or net assets/equity for the period.

The reasons for these changes are set out in the Basis for Conclusions to [draft] IPSAS [X] (ED 77).

BC10. [Draft] IPSAS [X], ED 77 also introduced a public sector specific measurement basis applicable to assets held for their operational capacity. As part of its review of all measurement bases in its literature, the IPSASB considered whether current operational value should be added to, or replace, an existing measurement basis in this Standard.

BC11. The IPSASB agreed to retain the current measurement bases in this Standard. The IPSASB specifically noted current replacement cost, which shares some characteristics with current operational value, should be retained, and not replaced in this Standard because when [Draft] IPSAS [X], ED 77 was issued, the IPSASB was not aware of any issues in practice when applying current replacement cost to inventory. The IPSASB agreed any changes to a specific measurement basis in this Standard should be considered as part of a standalone project related to this IPSAS. This allows stakeholders to clearly consider the implications of the proposal.

Amendments to IPSAS 16, *Investment Property*

Paragraphs 8, 33, 35, 38, 39, 40, 41, 42, 43, 49, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 are amended. Paragraphs 89A–89F, 101M are added. Paragraphs 45–48, 51–56, 58, 60, and 86(d) are deleted. New text is underlined and deleted text is struck through.

...

Classification of Property as Investment Property or Owner-Occupied Property

8. **A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, (a) the property would otherwise meet the definition of an investment property, and (b) the lessee uses the fair current value model set out in paragraphs 42–64 for the asset recognized. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair current value model. When this**

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classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 85–89.

...

Measurement at Recognition

...

33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial recognition, to adopt either the ~~fair~~ current value model (paragraphs 42–64) or the historical cost model (paragraph 65).

...

35. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on ~~determining~~ measuring the fair value of a property interest is set out for the ~~fair~~ current value model in paragraphs 42–61. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

...

38. The fair value of an asset ~~for which comparable market transactions do not exist~~ is reliably measurable if (a) the variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value. If the entity is able to ~~determine~~ measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after Recognition**Accounting Policy**

39. With the exception noted in paragraph 43, an entity shall choose as its accounting policy either the ~~fair~~ current value model in paragraph 42-64 or the historical cost model in paragraph 65, and shall apply that policy to all of its investment property.
40. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the ~~fair~~ current value model to the historical cost model will result in a more relevant presentation.
41. This Standard requires all entities to ~~determine~~ measure the fair value of investment property, for the purpose of either measurement (if the entity uses the ~~fair~~ current value model) or disclosure (if it

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uses the historical cost model). An entity is encouraged, but not required, to determine measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Fair Current Value Model

42. After initial recognition, an entity that chooses the ~~fair~~ current value model shall measure all of its investment property at fair value, except in the cases described in paragraph 62.
43. When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 8, paragraph 39 is not elective; the ~~fair~~ current value model shall be applied.
- ...
45. ~~The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale. [Deleted]~~
46. ~~An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal. [Deleted]~~
47. ~~The fair value of investment property shall reflect market conditions at the reporting date. [Deleted]~~
48. ~~Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous. [Deleted]~~
49. When measuring the ~~The~~ fair value of investment property in accordance with Appendix A of [draft] IPSAS [X] (ED 77), an entity shall ensure that the fair value reflects, among other things, rental revenue from current leases and reasonable and supportable other assumptions that represent what knowledgeable, willing parties ~~market participants~~ would assume use when pricing the investment property about rental revenue from future leases in the light of under current market conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognized in the financial statements until a later date (e.g. periodic payments such as contingent rents).
50. Paragraph 34 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 42 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognized liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognized at fair value or at the present value of minimum lease payments, in accordance with paragraph 28 of IPSAS 13. Thus, remeasuring a leased asset from

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cost in accordance with paragraph 34 to fair value in accordance with paragraph 42 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair current value model is made after initial recognition.

51. ~~The definition of fair value refers to “knowledgeable, willing parties”. In this context, “knowledgeable” means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require. [Deleted]~~
52. ~~A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold-out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (e.g., a willing seller would not take into account the particular tax circumstances of the actual investment property owner). [Deleted]~~
53. ~~The definition of fair value refers to an arm’s length transaction. An arm’s length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently. [Deleted]~~
54. ~~The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms of the leases and other contracts relating to the property. [Deleted]~~
55. ~~In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:~~
 - ~~(a) Current prices in an active market for properties of different nature, condition, or location (or subject to different lease or other contracts), adjusted to reflect those differences;~~
 - ~~(b) Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and~~
 - ~~(c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence, such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. [Deleted]~~
56. ~~In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates. [Deleted]~~

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57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value ~~estimates~~ measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single ~~estimate~~ measure of fair value is negated. This may indicate that the fair value of the property will not be reliably ~~determinable~~ measurable on a continuing basis (see paragraph 62).
58. ~~Fair value differs from value in use, as defined in IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors, to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:~~
- ~~(a) Additional value derived from the creation of a portfolio of properties in different locations;~~
 - ~~(b) Synergies between investment property and other assets;~~
 - ~~(c) Legal rights or legal restrictions that are specific only to the current owner; and~~
 - ~~(d) Tax benefits or tax burdens that are specific to the current owner. [Deleted]~~
59. In determining the carrying amount of investment property under the fair current value model, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:
- (a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognized separately as property, plant, and equipment.
 - (b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.
 - (c) The fair value of investment property excludes prepaid or accrued operating lease revenue, because the entity recognizes it as a separate liability or asset.
 - (d) The fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized lease liability, to arrive at the carrying amount of the investment property using the fair current value model.
60. ~~The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. [Deleted]~~

...

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Inability to ~~Determine~~ Measure Fair Value Reliably

62. There is a rebuttable presumption that an entity can reliably ~~determine~~ measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably ~~determinable~~ measurable on a continuing basis. This arises when, and only when, the market for comparable market property is inactive (e.g., there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) ~~are infrequent~~ and alternative reliable ~~estimates~~ measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably ~~determinable~~ measurable but expects the fair value of the property to be reliably ~~determinable~~ measurable when construction is complete, it shall measure that investment property under construction at historical cost until either its fair value becomes reliably ~~determinable~~ measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably ~~determinable~~ measurable on a continuing basis, the entity shall measure that investment property using the historical cost model in IPSAS 17. The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 until disposal of the investment property.
- 62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the historical cost model in accordance with IPSAS 17.
- 62B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be ~~determined~~ measured reliably.
63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the historical cost model in accordance with IPSAS 17, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the historical cost model for one investment property, the entity shall continue to account for each of the remaining ~~properties~~ property using the ~~fair~~ current value model.

...

Historical Cost Model

65. After initial recognition, an entity that chooses the historical cost model shall measure all of its investment property in accordance with IPSAS 17's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

...

Transfers

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70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the fair current value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

...

Disposals

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79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the historical cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair current value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

...

Disclosure

Fair Current Value Model and Historical Cost Model

...

86. **An entity shall disclose:**
- (a) Whether it applies the fair current value or the historical cost model;**
 - (b) If it applies the fair current value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;**
 - (c) When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;**
 - (d) ~~The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the~~**

APPENDIX E

~~entity shall disclose) because of the nature of the property and lack of comparable market data;~~

(e) ...

...

Fair Current Value Model

87. In addition to the disclosures required by paragraph 86, an entity that applies the fair current value model in paragraphs 42-64 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

(a) ...

...

89. In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in IPSAS 17, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

...

(b) An explanation of why fair value cannot be ~~determined~~ measured reliably;

...

Current Value Measurement

89A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For investment properties that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

89B. To meet the objectives in paragraph 89A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 89A, an entity shall disclose additional information necessary to meet those objectives.

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- 89C. To meet the objectives in paragraph 89A, an entity shall disclose, at a minimum, the following information for each class of investment property (see paragraph 89D for information on determining appropriate classes of investment property) measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:
- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position in particular circumstances;
 - (b) For recurring and non-recurring fair value measurements, whether the fair value measurements are estimated using observable or unobservable inputs. For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
 - (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.
 - (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
 - (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investment

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properties held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

89D. An entity shall determine appropriate classes of investment property on the basis of the following:

- (a) The nature, characteristics and risks of the investment property; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of investment property for which disclosures about fair value measurements should be provided requires judgement. A class of investment property will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an investment property, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

89E For each class of investment property not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 89C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 89C(c). For such investment properties, an entity does not need to provide the other disclosures required by this Standard.

89F An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

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Historical Cost Model

90. In addition to the disclosures required by paragraph 86, an entity that applies the historical cost model in paragraph 65 shall disclose:

...

- (e) The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot ~~determine~~ measure the fair value of the investment property reliably, the entity shall disclose:

...

- (ii) An explanation of why fair value cannot be ~~determined~~ measured reliably; and

...

Transitional Provisions

...

Fair Current Value Model

...

97. An entity that (a) has previously applied IPSAS 16 (2001), and (b) elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property, shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition:

- (a) If the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (~~determined measured~~ on a basis that satisfies the definition of fair value and the guidance in ~~paragraphs 45–61~~ Appendix A of [draft] IPSAS [X] (ED 77)), the entity is encouraged, but not required:

- (i) To adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and
- (ii) To restate comparative information for those periods; and

- (b) If the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.

...

Historical Cost Model

...

Effective Date

...

- 101M. Paragraphs 8, 33, 35, 38, 39, 40, 41, 42, 43, 49, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 were amended, and paragraphs 89A–89F were added, and paragraphs 45–48, 51–56, 58, 60, and 86(d) were deleted by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods

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beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

...

Revision of IPSAS 16 as a result of [draft] IPSAS [X] (ED 77), *Measurement*

BC12. [Draft] IPSAS [X] (ED 77), *Measurement*, issued in [Month] [Year], provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to update measurement terminology and disclosure requirements for consistency with [draft] IPSAS [X] (ED 77), remove guidance on measurement in IPSAS 16 where such guidance was now provided in [draft] IPSAS [X] (ED 77), and to refer preparers to the guidance in that Standard.

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraphs 10 and 29 are amended. Paragraphs 10A and 82N are added. New text is underlined and deleted text is struck through.

...

Scope

...

10. ~~This Standard does not require the application of an impairment test to an investment property that is carried~~ measured at fair value in accordance with ~~within the scope of IPSAS 16. This is because, under the fair current value model in IPSAS 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.~~
- 10A. However, this Standard applies to non-cash-generating assets that are carried at revalued amounts (i.e., fair value, or current operational value, at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in [draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment* and the revaluation model in IPSAS 31, *Intangible Assets*. The only difference between a non-cash-generating asset's fair value and its fair value less costs to sell is the direct incremental costs attributable to the disposal of the non-cash-generating asset.
- (a) If the disposal costs are negligible, the recoverable service amount of the revalued non-cash-generating asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued non-cash-generating asset is impaired and recoverable service amount need not be estimated.
- (b) If the disposal costs are not negligible, the fair value less costs to sell of the revalued non-cash-generating asset is necessarily less than its fair value. Therefore, the revalued non-cash-generating asset will be impaired if its value in use is less than its revalued amount. In

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this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the non-cash-generating asset may be impaired.

...

Identifying an Asset that may be Impaired

...

29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:

- (a) During the period, There are observable indications that the an asset's market value has declined during the period significantly more than would be expected as a result of the passage of time or normal use; or
- (b) A significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

...

...

Effective Date

...

82N. Paragraphs 10 and 29 were amended and paragraph 10A was added by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 21.

...

Property, Plant, and Equipment and Intangible Assets

...

BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs ~~to sell~~ of disposal and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement

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cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches ~~may also be~~ were also adopted to measure fair value under IPSAS 17 and IPSAS 31 and therefore the value in use ~~is~~ was a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs ~~to sell~~ of disposal and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.

BC19A. The IPSASB has since issued [draft] IPSAS [X], (ED 77) which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, which guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the restoration cost approach and the service units approach were appropriate to estimate fair value. The IPSASB noted that the alternatives included in IPSAS 17 and IPSAS 31 are inconsistent with measurement techniques available in [draft] IPSAS [X], (ED 77) to estimate fair value. The IPSASB agreed to update the definition of fair value in IPSAS 31 to align with [draft] IPSAS [X], (ED 77) and replaced IPSAS 17 with [draft] IPSAS [X], (ED 78), Property, Plant, and Equipment.

...

Reversal of Impairment

...

BC25. Paragraph 27(c) includes "Evidence is available of physical damage of an asset" as a minimum indication of impairment. Paragraph 60 does not include an indication of reversal of impairment that mirrors this indication of impairment. The IPSASB has not included repair of an asset as an indication of reversal, because IPSAS 17 requires entities to add subsequent expenditure to the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. This requirement also applies to investment property that is measured using the historical cost model under IPSAS 16. The IPSASB is of the view that these requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment. The IPSASB also noted that restoration or repair of damage does not constitute a change in the estimate of the asset's recoverable service amount after impairment as specified by paragraph 65 of this IPSAS.

...

Revision of IPSAS 21 as a result of [draft] IPSAS [X] (ED 77), Measurement

BC27. [Draft] IPSAS [X] (ED 77), Measurement, issued in [Month] [Year], provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 21 where such guidance was now provided in [draft] IPSAS [X] (ED 77), and to refer preparers to the guidance in that Standard.

Revision of IPSAS 21 as a result of [draft] IPSAS [X] (ED 77), Measurement

BC28. [Draft] IPSAS [X] (ED 77), Measurement, issued in [Month] [Year], provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all

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IPSAS. The IPSASB agreed the concept of fair value should be retained in IPSAS 21, independent of the revised definition of fair value proposed in [draft] IPSAS [X] (ED 77). The IPSASB agreed any changes to the concept of fair value in IPSAS 21 should be considered as part of an IPSAS 21 specific project and in the context of estimating impairment more broadly.

Amendments to IPSAS 22, *Disclosure of Financial Information about the General Government Sector*

Paragraph 32 is amended. Paragraph 47F is added. New text is underlined and deleted text is struck through.

...

Accounting Policies

...

32. Statistical bases of reporting require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements, and require or permit a historical cost model and current values model for certain classes of assets and liabilities. They do not require all assets and liabilities to be revalued to market value. Therefore, the measurement of assets and liabilities in the GGS disclosures in the financial statements, including the investment in the PFC and PNFC sectors, may differ from the measurement basis adopted in statistical bases of reporting.

...

Effective Date

...

- 47F. Paragraph 32 was amended by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

...

Consolidation and Disaggregation

- BC7. Statistical bases of financial reporting and IPSASs have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, statistical bases of financial reporting:

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- (a) Require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements, and require or permit a historical cost model and current values model for certain classes of assets and liabilities;
- (b) ...

...

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraphs 42 and 97 are amended and paragraph 124H is added. New text is underlined and deleted text is struck through.

...

Recognition of Assets

...

Measurement of Assets on Initial Recognition

- 42. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition. Appendix A of [draft] IPSAS [X] (ED 77), *Measurement*, provides guidance on measuring assets at fair value.

...

Transfers

...

Gifts and Donations, including Goods In-kind

...

- 97. On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, ~~which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment in accordance with [draft] IPSAS [X] (ED 77).~~

...

Effective Date

...

- 124H. Paragraphs 42 and 97 were amended by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies

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the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs 8, 10, 13, 25, 31–36, 41, 42, 66, 78, 85, 87, 89, 92, 94, 100, 104, 120, and 123 are amended. Paragraphs 10A, 66A and 126M are added. Paragraphs 38–40 are deleted. New text is underlined and deleted text is struck through.

...

Scope

...

8. This Standard does not apply to inventories and cash-generating assets arising from construction contracts, because existing standards applicable to these assets contain requirements for recognizing and measuring such assets. This Standard does not apply to deferred tax assets, assets related to employee benefits, or deferred acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts. The impairment of such assets is addressed in the relevant international or national accounting standards. In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs ~~to sell~~ of disposal. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

...

10. This Standard does not require the application of an impairment test to ~~an~~ investment property ~~that is carried~~ measured at fair value ~~in accordance with~~ within the scope of IPSAS 16. Under the fair current value model in IPSAS 16, an investment property is carried at fair value at the reporting date, and any impairment will be taken into account in the valuation.

...

10A. However, this Standard applies to cash-generating assets that are carried at revalued amounts (i.e., fair value or current operational value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in IPSAS 17, *Property, Plant, and Equipment* and the revaluation model in IPSAS 31, *Intangible Assets*. The only difference between a cash-generating asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the cash-generating asset.

(a) If the disposal costs are negligible, the recoverable amount of the revalued cash-generating asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued cash-generating asset is impaired and recoverable amount need not be estimated.

(b) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued cash-generating asset is necessarily less than its fair value. Therefore, the revalued cash-

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generating asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the cash-generating asset may be impaired.

...

Definitions

13. The following terms are used in this Standard with the meanings specified:

...

Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs ~~to sell~~ of disposal and its value in use.

...

Identifying an Asset that may be Impaired

...

25. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) ~~During the period,~~ **There are observable indicators that an asset's market value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;**

...

Measuring Recoverable Amount

31. This Standard defines "recoverable amount" as the higher of an asset's fair value less costs ~~to sell~~ of disposal and its value in use. Paragraphs 32–70 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit.
32. It is not always necessary to determine both an asset's fair value less costs ~~to sell~~ of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
33. It may be possible to ~~determine measure~~ determine measure fair value less costs ~~to sell~~ of disposal, even if there is not a quoted price in an active market for an identical asset is not traded in an active market. However, sometimes it will not be possible to ~~determine measure~~ determine measure fair value less costs ~~to sell~~ of disposal because there is no basis for making a reliable³ estimate of the ~~amount obtainable from the sale of~~

³ Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

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~~the asset in an arm's length transaction between knowledgeable and willing parties~~ price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.

34. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs ~~to sell~~ of disposal, the asset's fair value less costs ~~to sell~~ of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.
35. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 85–90), unless either:
- (a) The asset's fair value less costs ~~to sell~~ of disposal is higher than its carrying amount; or
 - (b) The asset is a part of a cash-generating unit but is capable of generating cash flows individually, in which case the asset's value in use can be estimated to be close to its fair value less costs ~~to sell~~ of disposal and the asset's fair value less costs ~~to sell~~ of disposal can be ~~determined~~ measured.
36. In some cases, estimates, averages and computational shortcuts may provide reasonable approximations of the detailed computations for determining fair value less costs ~~to sell~~ of disposal or value in use.

...

Fair Value less Costs ~~to Sell~~ of Disposal

38. ~~The best evidence of an asset's fair value less costs to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. [Deleted]~~
39. ~~If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made. [Deleted]~~
40. ~~If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available that reflects the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale. [Deleted]~~

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41. Costs of disposal, other than those that have been recognized as liabilities, are deducted in ~~determining~~ measuring fair value less costs ~~to sell~~ of disposal. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits and costs associated with reducing or reorganizing ~~a business~~ an operation following the disposal of an asset are not direct incremental costs to dispose of the asset.
42. Sometimes, the disposal of an asset would require the buyer to assume a liability, and only a single fair value less costs ~~to sell~~ of disposal is available for both the asset and the liability. Paragraph 89 explains how to deal with such cases.

Value in Use

...

Composition of Estimates of Future Cash Flows

...

66. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs ~~to sell~~ of disposal, except that, in estimating those net cash flows:
- (a) ...
- 66A. Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:
- (a) Additional value derived from the grouping of assets (such as the creation of a portfolio of investment property in different locations);
- (b) Synergies between the asset being measured and other assets;
- (c) Legal rights or legal restrictions that are specific only to the current owner of the asset; and
- (d) Tax benefits or tax burdens that are specific to the current owner of the asset.

...

Cash-Generating Units

...

Identifying the Cash-Generating Unit to which an Asset Belongs

...

78. The recoverable amount of an individual asset cannot be determined if:

APPENDIX E

- (a) The asset's value in use cannot be estimated to be close to its fair value less costs ~~to sell~~ of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and
- (b) The asset does not generate cash inflows that are largely independent of those from other assets and is not capable of generating cash flows individually.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

...

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

85. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs ~~to sell~~ of disposal and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 31–70 to an asset is read as a reference to a cash-generating unit.

...

87. The carrying amount of a cash-generating unit:
- (a) Includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and
 - (b) Does not include the carrying amount of any recognized liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because fair value less costs ~~to sell~~ of disposal and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognized (see paragraphs 41 and 56).

...

89. It may be necessary to consider some recognized liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs ~~to sell~~ of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the ~~estimated selling price to sell~~ price to sell for the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

...

Impairment Loss for a Cash-Generating Unit

...

92. **In allocating an impairment loss in accordance with paragraph 91, an entity shall not reduce the carrying amount of an asset below the highest of:**

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- (a) **Its fair value less costs ~~to sell~~ of disposal (if ~~determinable~~ measurable);**

...

94. If the recoverable amount of an individual asset cannot be determined (see paragraph 78):

- (a) An impairment loss is recognized for the asset if its carrying amount is greater than the higher of its fair value less costs ~~to sell~~ of disposal and the results of the allocation procedures described in paragraphs 91–93; and
- (b) No impairment loss is recognized for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs ~~to sell~~ of disposal is less than its carrying amount.

...

Reversing an Impairment Loss

...

100. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **There are observable indications that ~~The~~ the asset's market value has increased significantly during the period;**

...

104. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

- (a) A change in the basis for recoverable amount (i.e., whether recoverable amount is based on fair value less costs ~~to sell~~ of disposal or value in use);
- (b) If recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows, or in the discount rate; or
- (c) If recoverable amount was based on fair value less costs ~~to sell~~ of disposal, a change in estimate of the components of fair value less costs ~~to sell~~ of disposal.

...

Disclosure

...

120. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period for a cash-generating asset (including goodwill) or a cash-generating unit:**

APPENDIX E

...

- (e) **Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs ~~to sell~~ of disposal or its value in use;**
- (f) **If the recoverable amount is fair value less costs ~~to sell~~ of disposal, ~~the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market;~~ and the entity shall disclose the following information:**
 - (i) **The level of the fair value hierarchy (see [draft] IPSAS [X] (ED 77)) within which the fair value measurement of the asset (cash-generating unit) is categorized in its entirety (without taking into account whether the ‘costs of disposal’ are observable);**
 - (ii) **For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) used to measure fair value less costs of disposal. If there has been a change in measurement technique, the entity shall disclose that change and the reason(s) for making it; and**
 - (iii) **For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset’s (cash-generating unit’s) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.**

...

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Intangible Assets with Indefinite Useful Lives

123. **An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives:**

...

- (c) **The basis on which the unit’s (group of units’) recoverable amount has been determined (i.e., value in use or fair value less costs ~~to sell~~ of disposal);**
- (d) **If the unit’s (group of units’) recoverable amount is based on value in use:**
 - (i) **~~A description of each~~ Each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit’s (group of units’) recoverable amount is most sensitive;**

...

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- (e) If the unit's (group of units') recoverable amount is based on fair value less costs ~~to sell of disposal~~, the ~~methodology measurement technique(s)~~ used to ~~determine measure~~ fair value less costs ~~to sell of disposal~~. If fair value less costs ~~to sell of disposal~~ is not ~~determined measured~~ using an ~~observable market~~ a quoted price for the an identical unit (group of units), an entity shall disclose the following information ~~shall also be disclosed~~:
- (i) ~~A description of each~~ Each key assumption on which management has based its determination of fair value less costs ~~to sell of disposal~~. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and
 - (ii) A description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
 - (iia) The level of the fair value hierarchy (see [draft] IPSAS [X] (ED 77)) within which the fair value measurement is categorized in its entirety (without giving regard to the observability of 'costs of disposal').
 - (iib) If there has been a change in measurement technique, the change and the reason(s) for making it.

If fair value less costs ~~to sell of disposal~~ is ~~determined measured~~ using discounted cash flow projections, an entity shall disclose the following information ~~shall also be disclosed~~:

- (iii) The period over which management has projected cash flows;
- (iv) The growth rate used to extrapolate cash flow projections; and
- (v) The discount rate(s) applied to the cash flow projections.

...

Effective Date

...

126M. Paragraphs 8, 10, 13, 25, 31-36, 41, 42, 66, 78, 85, 87, 89, 92, 94, 100, 104, 120, and 123 were amended, paragraphs 10A and 66A were added, and paragraphs 38-40 were deleted by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 26.

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Development of IPSAS 26 based on the IASB's revised version of IAS 36 issued in 2004

...

Fair Value less Costs ~~to Sell~~ of Disposal and Forced Sales

...

Revision of IPSAS 26 as a result of [draft] IPSAS [X] (ED 77), Measurement

BC22. [Draft] IPSAS [X] (ED 77), Measurement, issued in [Month] [Year], provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 26 where such guidance was now provided in [draft] IPSAS [X] (ED 77), and to refer preparers to the guidance in that Standard.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26.

...

Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

...

IG13. It is not possible to determine the fair value less costs ~~to sell~~ of disposal of the power plant. Therefore, recoverability can only be determined through the calculation of value in use. To determine the value in use for the power plant (see Schedule 1), Government R:

- (a) Prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management;
- (b) Estimates subsequent cash flows (years 20Y0–20Y9) based on declining growth rates ranging from -6 percent per annum to -3 percent per annum; and
- (c) Selects a 6 percent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to Government R's power plant.

...

Inclusion of Recognized Liabilities in Calculation of Recoverable Amount of a Cash-Generating Unit

...

Impairment Testing

...

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IG24. The cash-generating unit's fair value less costs ~~to sell~~ of disposal is CU800. This amount includes restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs, and is estimated to be CU700 (CU1,200 minus CU500). The carrying amount of the cash-generating unit is CU500, which is the carrying amount of the site (CU1,000) minus the carrying amount of the provision for restoration costs (CU500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

...

Accounting Treatment of an Individual Asset in a Cash-Generating Unit dependent on whether Recoverable Amount can be Determined

Background

IG25. A holding tank at a water purification plant has suffered physical damage but is still working, although not as well as before it was damaged. The holding tank's fair value less costs ~~to sell~~ of disposal is less than its carrying amount. The holding tank does not generate independent cash inflows. The smallest identifiable group of assets that includes the holding tank and generates cash inflows that are largely independent of the cash inflows from other assets is the plant to which the holding tank belongs. The recoverable amount of the plant shows that the plant taken as a whole is not impaired.

Recoverable Amount of Holding Tank Cannot be Determined

...

IG27. The recoverable amount of the holding tank alone cannot be estimated because the holding tank's value in use:

- (a) May differ from its fair value less costs ~~to sell~~ of disposal; and
- (b) Can be determined only for the cash-generating unit to which the holding tank belongs (the water purification plant).

The plant is not impaired. Therefore, no impairment loss is recognized for the holding tank. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the holding tank. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the holding tank or the pattern in which economic benefits are expected to be consumed by the entity.

...

Recoverable Amount of Holding Tank Can be Determined

...

IG29. The holding tank's value in use can be estimated to be close to its fair value less costs ~~to sell~~ of disposal. Therefore, the recoverable amount of the holding tank can be determined, and no consideration is given to the cash-generating unit to which the holding tank belongs (i.e., the

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production line). Because the holding tank's fair value less costs ~~to sell~~ of disposal is below its carrying amount, an impairment loss is recognized for the holding tank.

Amendments to IPSAS 27, Agriculture

Paragraphs 19, 20, 26, 29 and 34 are amended. Paragraphs 46A–46F and 56K is added. Paragraphs 14, 21–25, 27, 45 and 46 are deleted. New text is underlined and deleted text is struck through.

...

Recognition and Measurement

...

14. ~~The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle either to that market or to the location where it will be distributed at no charge or for a nominal charge. [Deleted]~~

...

19. The ~~determination~~ of fair value measurement ~~for~~ a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.
20. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in ~~determining~~ measuring fair value, because fair value reflects the current market conditions in which ~~a willing buyer and seller~~ market participant buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce in an exchange transaction may be an onerous contract, as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 applies to onerous contracts.
21. ~~If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used. [Deleted]~~
22. ~~If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:~~
- ~~(a) The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;~~
 - ~~(b) Market prices for similar assets with adjustment to reflect differences; and~~
 - ~~(c) Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat. [Deleted]~~

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23. ~~In some cases, the information sources listed in paragraph 22 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates. [Deleted]~~
24. ~~In some circumstances, market determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market determined rate in determining fair value. [Deleted]~~
25. ~~The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market. [Deleted]~~
26. An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).
27. ~~In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored. [Deleted]~~
- ...
29. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to ~~determine~~ measure the fair value ~~for~~ of the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.
- ...

Inability to Measure Fair Value Reliably

34. **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market-determined prices or values are not available, and for which alternative estimates of fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell.**

...

Disclosure

General

...

45. ~~An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.~~
46. ~~An entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.~~
- 46A. An entity shall disclose information that helps users of its financial statements assess both of the following:
- (a) For agricultural assets that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and
 - (b) For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.
- 46B. To meet the objectives in paragraph 46A, an entity shall consider all the following:
- (a) The level of detail necessary to satisfy the disclosure requirements;
 - (b) How much emphasis to place on each of the various requirements;
 - (c) How much aggregation or disaggregation to undertake; and
 - (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 46A, an entity shall disclose additional information necessary to meet those objectives.

- 46C. To meet the objectives in paragraph 46A, an entity shall disclose, at a minimum, the following information for each class of agricultural assets (see paragraph 46D for information on determining appropriate classes of agricultural assets) measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:
- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position in particular circumstances;

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- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those agricultural assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in

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the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

46D. An entity shall determine appropriate classes of agricultural assets on the basis of the following:

- (a) The nature, characteristics and risks of the agricultural assets; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of agricultural assets for which disclosures about fair value measurements should be provided requires judgement. A class of agricultural assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an agricultural asset, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

46E For each class of agricultural assets not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 46C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 46C(c). For such agricultural assets, an entity does not need to provide the other disclosures required by this Standard.

46F An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

Effective Date

...

56K. Paragraphs 19, 20, 26, 29 and 34 were amended, paragraphs 46A–46E were added, and paragraphs 14, 21–25, 27, 45 and 46 were deleted by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

...

APPENDIX E

Revision of IPSAS 27 as a result of [draft] IPSAS [X] (ED 77), Measurement

BC18.[Draft] IPSAS [X] (ED 77), issued in [Month] [Year], provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 27 where such guidance was now provided in [draft] IPSAS [X] (ED 77), and to refer preparers to the guidance in that Standard.

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraph AG56 is amended. Paragraph 60K is added. New text is underlined and deleted text is struck through.

...

Effective Date

...

60K. Paragraph AG56 was amended by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Application Guidance

This Appendix is an integral part of IPSAS 28.

...

Presentation

...

Treatment in Consolidated Financial Statements

...

Compound Financial Instruments (paragraphs 33–37)

...

AG56. Compound financial instruments are not common in the public sector because of the capital structure of public sector entities. The following discussion does, however, illustrate how a compound financial instrument would be analyzed into its component parts. A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 33 requires the issuer of such a financial instrument to present the liability component and net assets/equity component separately in the statement of financial position, as follows:

...

- (b) The equity instrument is an embedded option to convert the liability into net assets/equity of the issuer. ~~The fair value of the option comprises its time value and its intrinsic value, if any.~~ This option has value on initial recognition even when it is out of the money.

...

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs 8 and 34 are amended. Paragraphs 30A–30I and 52J are added. Paragraphs 31–33 are deleted. New text is underlined and deleted text is struck through.

...

Definitions

8. The following terms are used in this Standard with the meanings specified:

...

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or **by** factors affecting all similar financial instruments traded in the market.

...

Significance of Financial Instruments for Financial Position and Financial Performance

...

Other Disclosures

...

Fair Value

...

- 30A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For financial instruments that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

- 30B. To meet the objectives in paragraph 30A, an entity shall consider all the following:

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- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 30A, an entity shall disclose additional information necessary to meet those objectives.

30C. To meet the objectives in paragraph 30A, an entity shall disclose, at a minimum, the following information for each class of financial instruments (see paragraph 30D for information on determining appropriate classes of financial instruments) measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For financial instruments held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;
- (d) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

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- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
- (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized;
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately); and
 - (iv) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those financial instruments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (g) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (h) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
- (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d); and
 - (ii) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to surplus or deficit, and total assets or total

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liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.

- 30D. An entity shall determine appropriate classes of financial instruments on the basis of the following:
- (a) The nature, characteristics and risks of the financial instruments; and
 - (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.
- The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of financial instruments for which disclosures about fair value measurements should be provided requires judgement. A class of financial instruments will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for a financial instrument, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.
- 30E. An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 30C(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:
- (a) The date of the event or change in circumstances that caused the transfer;
 - (b) The beginning of the reporting period; and
 - (c) The end of the reporting period.
- 30F. If an entity makes an accounting policy decision to use the exception in paragraph IPSAS 41.AG143O, it shall disclose that fact.
- 30G. For each class of financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 30C(b), (d) and (h). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 30C(d). For such financial instruments, an entity does not need to provide the other disclosures required by this Standard.
- 30H. For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.
- 30I. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.
31. ~~An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial~~

APPENDIX E

~~assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it. [Deleted]~~

- 32 ~~To make the disclosures required by paragraph 33 an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:~~

- ~~(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);~~
- ~~(b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices) (Level 2); and~~
- ~~(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).~~

~~The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. [Deleted]~~

33. ~~For fair value measurements recognized in the statement of financial position an entity shall disclose for each class of financial instruments:~~

- ~~(a) The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 32.~~
- ~~(b) Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.~~
- ~~(c) For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

 - ~~(i) Total gains or losses for the period recognized in surplus or deficit, and a description of where they are presented in the statement of financial performance;~~
 - ~~(ii) Total gains or losses recognized in net assets/equity;~~
 - ~~(iii) Purchases, sales, issues, and settlements (each type of movement disclosed separately); and~~
 - ~~(iv) Transfers into or out of Level 3 (e.g., transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant~~~~

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~~transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.~~

- ~~(d) The amount of total gains or losses for the period in (c)(i) above included in surplus or deficit that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of financial performance.~~
- ~~(e) For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.~~

~~An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate. [Deleted]~~

34. ~~If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG149–AG154 of IPSAS 41). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless conditions described in paragraph AG151 of IPSAS 41 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument: In some cases, an entity does not recognize a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) nor based on a measurement technique that uses only data from observable markets (see paragraph AG117 of IPSAS 41). In such cases, the entity shall disclose by class of financial asset or financial liability:~~
- ~~(a) Its accounting policy for recognizing in surplus or deficit the that difference between the fair value at initial recognition and the transaction price in surplus or deficit to reflect a change in factors (including time) that market participants would consider in setting a price take into account when pricing the asset or liability (see paragraph AG117(b) of IPSAS 41); and~~
- ~~(b) The aggregate difference yet to be recognized in surplus or deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference; and~~
- ~~(c) Why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.~~

...

Effective Date

...

- 52J. Paragraphs 8 and 34 were amended, paragraphs 30A–30I were added, and paragraphs 31–33 were deleted by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD,

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YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 30.

...

Significance of Financial Instruments for Financial Position and Financial Performance (paragraphs 10–36, AG4 and AG5)

...

Fair Value (paragraphs ~~31–34~~)

...

IG16. The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG151 of IPSAS 41. However, when, after initial recognition, an entity will use a measurement valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that measurement valuation technique. In these circumstances, the difference will be recognized in surplus or deficit in subsequent periods in accordance with IPSAS 41 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG151 of IPSAS 41). ~~Paragraph 33 requires disclosures in these circumstances.~~ An entity might disclose the following to comply with paragraph 34:

Background

On January 1, 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a measurement valuation technique to establish the financial assets' fair value. This measurement valuation technique includes variables other than data from observable markets.

At initial recognition, the same measurement valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at January 1, 20X1.

Application of Requirements

The entity's 20X2 disclosure would include the following:

Accounting Policies

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The entity uses the following measurement valuation technique to ~~determine~~ measure the fair value of financial instruments that are not traded in an active market: [description of technique not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IPSAS 41, is generally the transaction price) and the amount determined at initial recognition using the measurement valuation technique. Any such differences are [description of the entity's accounting policy]

In the Notes to the Financial Statements

As discussed in note X, the entity uses [name of measurement valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IPSAS 41, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the measurement valuation technique, that difference is [description of the entity's accounting policy].

...

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123 and 124 are amended. Paragraphs 123A–123F and 132P are added. New text is underlined and deleted text is struck through.

...

Recognition and Measurement

...

Exchanges of Assets

...

45. Paragraph 28(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset ~~for which comparable market transactions do not exist~~ is reliably measurable if:

- (a) The variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset: or
- (b) The probabilities of the various ~~estimates~~ measurements within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value.

If an entity is able to ~~determine~~ measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

...

Internally Generated Goodwill

...

APPENDIX E

48. Differences between the ~~market~~ fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

...

Subsequent Measurement

71. **An entity shall choose either the historical cost model in paragraph 73 or the ~~revaluation~~ current value model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the ~~revaluation~~ current value model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.**

...

Historical Cost Model

...

Current Value ~~Revaluation~~ Model

74. **After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be ~~determined~~ measured by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.**

75. The ~~revaluation~~ current value model does not allow:

- (a) The revaluation of intangible assets that have not previously been recognized as assets; or
- (b) The initial recognition of intangible assets at amounts other than cost.

76. The ~~revaluation~~ current value model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 63), the ~~revaluation~~ current value model may be applied to the whole of that asset. Also, the ~~revaluation~~ current value model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 42–43).

...

81. **If the fair value of a revalued intangible asset can no longer be ~~determined~~ measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.**

...

83. If the fair value of the asset can be ~~determined~~ measured by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

...

Intangible Assets with Finite Useful Lives

...

Residual Value

99. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
- (a) There is a commitment by a third party to acquire the asset at the end of its useful life; or
 - (b) There is an active market (as defined in [draft] IPSAS [X] (ED 77)) for the asset, and:
 - (i) Residual value can be determined by reference to that market; and
 - (ii) It is probable that such a market will exist at the end of the asset's useful life.

...

Disclosure

General

...

121. An entity shall also disclose:

...

- (c) For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs 42–43):
 - (i) The fair value initially recognized for these assets;
 - (ii) Their carrying amount; and
 - (iii) Whether they are measured after recognition under the historical cost model or the current value revaluation model.
- (d) ...

...

Intangible Assets Measured after Recognition using the Current Value Revaluation Model

123. If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:
- (a) By class of intangible assets:
 - (i) The effective date of the revaluation;
 - (ii) The carrying amount of revalued intangible assets; and

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- (iii) **The carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the historical cost model in paragraph 73;**

(b) ...

~~(c) The methods and significant assumptions applied in estimating the assets' fair values.
[Deleted]~~

123A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For intangible assets that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

123B. To meet the objectives in paragraph 123A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 123A, an entity shall disclose additional information necessary to meet those objectives.

123C. To meet the objectives in paragraph 123A, an entity shall disclose, at a minimum, the following information for each class of intangible assets (see paragraph 123D for information on determining appropriate classes of intangible assets) measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of intangible assets are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of intangible assets are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value

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measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those intangible assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

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123D. An entity shall determine appropriate classes of intangible assets on the basis of the following:

- (a) The nature, characteristics and risks of the intangible assets; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of intangible assets for which disclosures about fair value measurements should be provided requires judgement. A class of intangible assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an intangible assets, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

123E For each class of intangible assets not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 123C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 123C(c). For such intangible assets, an entity does not need to provide the other disclosures required by this Standard.

123F An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

124. It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the historical cost and current value revaluation models.

Effective Date

...

132P. Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123, and 124 were amended, and paragraphs 123A–123F were added by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

...

Current Value Revaluation Model

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BC9. The ~~current value revaluation~~ model proposed in IPSAS 31 is similar to the revaluation model ~~that~~ in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. IPSAS 17, *Property, Plant, and Equipment* requires revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB considered this approach for intangible assets, but concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis.

...

Revision of IPSAS 31 as a result of *Improvements to IPSAS, 2018*

BC13. Paragraph 109 requires an entity to test an intangible asset for impairment when reassessing its useful life. When this standard was issued, such a test was only required for intangible assets measured under the historical cost model. Following the publication of *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) in July 2016, this test is required for all intangible assets, and paragraph 109 has been amended accordingly.

Revision of IPSAS 31 as a result of [draft] IPSAS [X] (ED 77), *Measurement*

BC14. [Draft] IPSAS [X] (ED 77), issued in [Month] [Year], provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 31 where such guidance was now provided in [draft] IPSAS [X] (ED 77), and to refer preparers to the guidance in that Standard.

BC15. [Draft] IPSAS [X] (ED 77) introduces a public sector current value model measurement basis, current operational value. This measurement basis is primarily applied when assets are held for their operational capacity. When [draft] IPSAS [X] (ED 77) was issued, the IPSASB concluded intangible assets have a single use. As such they are always held for their highest and best use and measurement is therefore consistent with fair value measurement. Current operational value was therefore not added as an available measurement basis to IPSAS 31.

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

Paragraphs 65, 69, 70, 72 and 148 are amended. Paragraphs 41B, 152A–152F and 154O are added. New text is underlined and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

...

- 41B. **A first-time adopter shall apply the guidance in [draft] IPSAS [X] (ED 77) when measuring assets and/or liabilities at fair value, cost of fulfillment, current operational value or historical cost.**

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

...

Using Deemed Cost to Measure Assets and/or Liabilities

...

65. Deemed cost can only be determined where the acquisition cost of the asset and/ or the liability is not available. Deemed cost assumes that the entity had initially recognized the asset and/ or the liability at the given date. Subsequent depreciation or amortization is based on that deemed cost on the premise that the acquisition cost is equal to the deemed cost. For example, a first-time adopter may elect to measure property, plant and equipment at deemed cost at the date of adoption of IPSASs because cost information about the item of property, plant and equipment was not available on that date, and use fair value as its deemed cost at that date. Any subsequent depreciation is based on the fair value ~~determined~~ measured at that date and starts from the date that the deemed cost has been determined.

...

69. In ~~determining~~ measuring the fair value in accordance with paragraph 67, the first-time adopter shall apply the definition of fair value and guidance in ~~other applicable IPSASs~~ [draft] IPSAS [X] (ED 77) in determining to measure the fair value of the asset in question. The fair value shall reflect conditions that existed at the date on which it was ~~determined~~ measured.

70. **If reliable market-based evidence of observable inputs of fair value is are not available for inventory, or investment property that is of a specialized nature, or property, plant, and equipment, a first-time adopter may consider the following measurement alternatives in determining a deemed cost:**

- (a) **For inventory, current replacement cost; ~~and~~**
- (b) **For investment property of a specialized nature, depreciated replacement cost; ~~and~~**

- (c) For property, plant, and equipment, current operational value.

...

**Using Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates
(IPSAS 34)**

72. Where a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, on the date of adoption of IPSASs, elect to measure that investment at one of the following amounts in its separate opening statement of financial position:

- (a) Cost; or
- (b) Deemed cost. The deemed cost of such an investment shall be its fair value ~~(determined in accordance with IPSAS 41)~~ at the first-time adopter's date of adoption of IPSASs in its separate financial statements.

...

Disclosures

Disclosures where Deemed Cost is Used for Inventory, Investment Property, Property, Plant and Equipment, Intangible Assets, Financial Instruments or Service Concession Assets

148. If a first-time adopter uses fair value, or the alternative in paragraphs 64, 67 or 70, as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, financial instruments, or service concession assets, its financial statements shall disclose:

- (a) The aggregate of those fair values ~~or other measurement alternatives~~ that were considered in determining deemed cost;
- (b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and
- (c) Whether the deemed cost was determined on the date of adoption of IPSASs or during the period of transition.

...

Current Value Measurement

152A. An entity shall disclose information that helps users of its financial statements assess the following:

- (a) For assets or liabilities that are measured at current operational value or fair value on a non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.

152B. To meet the objectives in paragraph 152A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;

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- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 152A, an entity shall disclose additional information necessary to meet those objectives.

152C. To meet the objectives in paragraph 152A, an entity shall disclose, at a minimum, the following information for each class of assets or liabilities measured at current operational value or fair value (including measurements based on current operational value or fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:

- (a) For non-recurring current operational value or fair value measurements, the current operational value or fair value measurement at the end of the reporting period, and the reasons for the measurement. Non-recurring current operational value or fair value measurements of assets or liabilities are those that this Standard requires or permits in the statement of financial position in particular circumstances.
- (b) For non-recurring current operational value or fair value measurements, whether the current operational value or fair value measurements are estimated using observable or unobservable inputs, and the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3), or of the current operational value estimated using unobservable inputs.
- (c) For non-recurring current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity.
- (d) For non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for non-recurring current operational value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period).

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152D. An entity shall determine appropriate classes of assets or liabilities on the basis of the following:

- (a) The nature, characteristics and risks of the assets or liabilities; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the current operational value or fair value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets or liabilities for which disclosures about current operational value or fair value measurements should be provided requires judgement. A class of assets or liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

152E For each class of assets or liabilities not measured at current operational value or fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 152C(b), (c) and (d). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using unobservable inputs, required by paragraph 152C(c). For such assets or liabilities, an entity does not need to provide the other disclosures required by this Standard.

152F An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

Effective Date

...

154O. Paragraphs 65, 69, 70, 72 and 148 were amended and paragraphs 41B and 152A–152F were added by [draft] IPSAS [X] (ED 77), issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS*Deemed Cost*

...

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

...

- BC93. In determining “fair value”, when IPSAS 33 was developed, the guidance in each applicable IPSAS is was considered, where such guidance is was provided. In IPSAS 17 it is was noted that fair value is was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also ~~states~~ stated that if ~~market-based~~ market-based evidence is was not available to measure items of property, plant and equipment, an entity ~~can~~ could estimate fair value using replacement cost, reproduction cost or a service units approach.
- BC94. The IPSASB noted that the fair value guidance in IPSAS 16 only ~~considers~~ considered a market-based value, and that limited guidance is was provided in IPSAS 12 in determining fair value. The IPSASB concluded that because a first-time adopter may find it difficult to determine a market-based fair value for all investment properties and all inventories, other measurement alternatives may need to be considered in determining deemed cost for inventory or investment property.
- BC94A. The IPSASB has since issued [draft] IPSAS [X], (ED 77) which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, which guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the continued use of measurement alternatives was appropriate, and noted that the alternatives included in IPSAS 33 are consistent with measurement techniques available in [draft] IPSAS [X], (ED 77) to estimate fair value. The IPSASB agreed to modify the wording of IPSAS 33 accordingly.
- BC95. The IPSASB agreed that a first-time adopter may consider the following measurement alternatives techniques in determining a deemed cost if ~~reliable market-based evidence~~ observable inputs of fair value is are not available on the date of adoption of IPSASs, or on the date that the asset is recognized and/or measured where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets:
- (a) For inventory, current replacement cost; and
 - (b) For investment property of a specialized nature, depreciated replacement cost.

...

Revision of IPSAS 33 as a result of [draft] IPSAS [X] (ED 77), Measurement

- BC122. [Draft] IPSAS [X] (ED 77), Measurement, issued in [Month] [Year], provides generic guidance on the initial and subsequent measurement of assets and liabilities, to ensure a consistent approach across all IPSAS. Paragraph 70 of this Standard permits a first-time adopter to consider replacement cost as a measurement alternative to fair value when observable inputs are not

APPENDIX E

available for inventory or investment property. Since [draft] IPSAS [X] (ED 77) does not identify replacement cost as measurement bases, the IPSASB consider whether it should be replaced.

BC123. Since replacement cost is retained in IPSAS 12, *Inventories*, and IPSAS 16, *Investment Property*, the IPSASB agreed to retain replacement cost in the context of this Standard to maintain consistency in principles between the specific requirements in individual IPSAS, and the principles on first-time adoption.

BC124. Furthermore, the IPSASB agreed to add current operational value as a measurement alternative to fair value when observable inputs are not available for property, plant, and equipment. Current operational value was added to align the principles in this Standard with [draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment* which, as a result of [draft] IPSAS [X] (ED 77), permits measuring property, plant, and equipment at current operational value for subsequent measurement.

Amendments to IPSAS 34, *Separate Financial Statements*

Paragraphs 23A–23I and 32E are added. New text is underlined and deleted text is struck through.

...

Disclosure

...

Current Value Measurement

23A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For investments that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

23B. To meet the objectives in paragraph 23A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 23A, an entity shall disclose additional information necessary to meet those objectives.

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- 23C. To meet the objectives in paragraph 23A, an entity shall disclose, at a minimum, the following information for each class of investments (see paragraph 23D for information on determining appropriate classes of investments) measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:
- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of investments are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of investments are those that this Standard requires or permits in the statement of financial position in particular circumstances;
 - (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
 - (c) For investments held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;
 - (d) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
 - (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized;
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately); and

APPENDIX E

- (iv) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (g) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (h) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
- (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d); and
- (ii) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.
- 23D. An entity shall determine appropriate classes of investments on the basis of the following:
- (a) The nature, characteristics and risks of the investments; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of investments for which disclosures about fair value

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measurements should be provided requires judgement. A class of investments will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an investments, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

23E. An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 23C(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- (a) The date of the event or change in circumstances that caused the transfer;
- (b) The beginning of the reporting period; and
- (c) The end of the reporting period.

23F If an entity makes an accounting policy decision to use the exception in paragraph IPSAS 41.AG143 , it shall disclose that fact.

23G For each class of investments not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 23C(b), (d) and (h). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 23C(d). For such investments, an entity does not need to provide the other disclosures required by this Standard.

23H An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

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Effective Date

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32E. Paragraphs 23A–23H were added by [draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Amendments to IPSAS 38, *Disclosure of Interests in Other Entities*

Paragraphs 57A–57F and 61E are added. New text is underlined and deleted text is struck through.

...

Disclosure

...

Current Value Measurement

57A. An entity shall disclose information that helps users of its financial statements assess both of the following:

- (a) For interests in other entities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and
- (b) For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.

57B. To meet the objectives in paragraph 57A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 57A, an entity shall disclose additional information necessary to meet those objectives.

57C. To meet the objectives in paragraph 57A, an entity shall disclose, at a minimum, the following information for each class of interests in other entities (see paragraph 57D for information on determining appropriate classes of interests in other entities) measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of interests in other entities are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of interests in other entities are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement

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technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those interests in other entities held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

57D. An entity shall determine appropriate classes of interests in other entities on the basis of the following:

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- (a) The nature, characteristics and risks of the interests in other entities; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of interests in other entities for which disclosures about fair value measurements should be provided requires judgement. A class of interests in other entities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an interests in other entities, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

57E For each class of interests in other entities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 57C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 57C(c). For such interests in other entities, an entity does not need to provide the other disclosures required by this Standard.

57F An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

Effective Date

...

61E. **Paragraphs 57A–57F were added by [draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.**

...

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 8 and 144 are amended and paragraph 176C is added. New text is underlined and deleted text is struck through.

...

Definitions

8. **The following terms are used in this Standard with the meanings specified**

...

Definitions Relating to the Net Defined Benefit Liability (Asset)

...

The **deficit or surplus** is:

- (a) The present value of the defined benefit obligation less
- (b) The fair value (as defined in [draft] IPSAS [X] (ED 77), *Measurement*, of plan assets (if any).

...

Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Short-Term Employee Benefits

...

Post-Employment Benefits—Defined Benefit Plans

...

Disclosure

...

Explanation of Amounts in the Financial Statements

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144. An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in [draft] IPSAS [X] (ED 77)) and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:

...

Effective Date

...

- 176C. Paragraphs 8 and 144 were amended by [draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraph 72 is amended and paragraph 126I is added. New text is underlined and deleted text is struck through.

...

The Acquisition Method of Accounting

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Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

...

Measurement Principle

72. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values (as defined in [draft] IPSAS [X] (ED 77), *Measurement*). Appendix A of [draft] IPSAS [X] (ED 77) provides guidance on measuring assets and liabilities at fair value.**

...

Effective Date

...

126I. **Paragraph 72 was amended by [draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.**

...

Disclosure Requirements Relating to Acquisitions

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of IPSAS 40.

IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is a public sector entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

...

**Paragraph
reference**

...

124(b) ... owned by TE, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).

The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.

The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying an income approach. The fair value measurement is based on significant inputs that are not observable in the market, which [draft] IPSAS [X] (ED 77), *Measurement*, refers to as Level 3 inputs. Key assumptions include a discount rate range of 20–25 percent and assumed probability-adjusted revenues in XE of CU10,000–20,000.

As of 31 December 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.

...

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 9, 66, AG31, AG38, AG115 and AG117 are amended. Paragraphs AG143A–AG143AB, and 156E are added. Paragraphs 67, 68 and AG144–AG155 are deleted. New text is underlined and deleted text is struck through.

...

Definitions

9. ...

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in either IPSAS 28, ~~or~~ IPSAS 30, *Financial Instruments*: *Disclosures*, or [draft] IPSAS [X] (ED 77), *Measurement*: credit risk⁴, currency risk, fair value, liquidity risk, market risk, equity instrument, financial asset, financial instrument, financial liability and puttable instrument.

...

⁴ This term (as defined in IPSAS 30) is used in the requirements for presenting the effects of changes in credit risk on liabilities designated as at fair value through surplus or deficit (see paragraph 108).

Measurement

...

Fair Value Measurement Considerations

66. In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, IPSAS 28 or IPSAS 30, an entity shall apply ~~[draft] IPSAS [X] (ED 77) and paragraphs AG143A–AG143AB AG144–AG155~~ of Appendix A.
67. ~~The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. [Deleted]~~
68. ~~The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. [Deleted]~~

...

Effective Date

...

- 156E. Paragraphs 9, 66, AG31, AG38, AG115 and AG117 were amended, paragraphs AG143A–AG143AB were added, and paragraphs 67, 68 and AG144–AG155 were deleted by [draft] IPSAS [X] (ED 77), *Measurement* issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Application Guidance

This Appendix is an integral part of IPSAS 41.

...

Subsequent Measurement

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Transfers that Qualify for Derecognition

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AG31. When measuring the fair values of the part that continues to be recognized and the part that is derecognized for the purposes of applying paragraph 24, an entity applies the fair value measurement requirements in paragraphs 66–68 and AG144–AG155 ~~[draft] IPSAS [X] (ED 77)~~ in addition to paragraph 25.

...

Examples

...

AG38. ...

	Estimated fair <u>Fair</u> value	Percentage	Allocated carrying amount
Portion transferred	9,090	90 percent	9,000
Portion retained	1,010	10 percent	1,000
Total	10,100		10,000

...

Initial measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

AG115. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG117 and [draft] IPSAS [X] (ED 77)). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument ~~is estimated, using a valuation technique (see paragraphs AG149–AG154)~~. For example, the fair value of a long-

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term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset.

...

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

- (a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a ~~valuation~~ measurement technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- (b) ...

...

Fair Value Measurement Considerations

Application to Liabilities and an Entity's Own Equity Instruments

General Principles

AG143A. A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g., equity interests issued as consideration in a public sector combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

- (a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and
- (b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

AG143B. Even when there is no observable market to provide pricing information about the transfer of a liability or an entity's own equity instrument (e.g., because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (e.g., a government bond or a call option on an entity's shares).

AG143C. In all cases, an entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

Liabilities and Equity Instruments Held by Other Parties as Assets

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AG143D. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

AG143E. In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

- (a) Using the quoted price in an *active market* for the identical item held by another party as an asset, if that price is available.
- (b) If that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.
- (c) If the observable prices in (a) and (b) are not available, using another measurement technique, such as
 - (i) An *income approach* (e.g., a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs 45 and C35); and
 - (ii) A *market approach* (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs 42, C31 and C32).

AG143F. An entity shall adjust the quoted price of a liability or an entity's own equity instrument held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

- (a) The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (e.g., the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset; and
- (b) The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

Liabilities and Equity Instruments not Held by Other Parties as Assets

AG143G. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a measurement technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

AG143H. For example, when applying a present value technique an entity might take into account either of the following:

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- (a) The future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs AG143X–AG143Z); or
- (b) The amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (e.g., having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

Non-Performance Risk

AG143I. The fair value of a liability reflects the effect of *non-performance risk*. Non-performance risk includes, but may not be limited to, an entity's own credit risk (as defined in IFRS 7 *Financial Instruments: Disclosures*). Non-performance risk is assumed to be the same before and after the transfer of the liability.

AG143J. When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:

- (a) Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability); and
- (b) The terms of credit enhancements related to the liability, if any.

AG143K. The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (e.g., a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the liability, the issuer would take into account its own credit standing and not that of the third-party guarantor when measuring the fair value of the liability.

Restriction Preventing the Transfer of a Liability or an Entity's Own Equity Instrument

AG143L. When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other *inputs* relating to the existence of a restriction that prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability or an entity's own equity instrument is either implicitly or explicitly included in the other inputs to the fair value measurement.

AG143M. For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

Financial Liability with a Demand Feature

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AG143N. The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Application to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk

AG143O. An entity that holds a group of financial assets and financial liabilities is exposed to market risks (as defined in IFRS 7) and to the credit risk (as defined in IFRS 7) of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this IFRS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e., an asset) for a particular risk exposure or paid to transfer a net short position (i.e., a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

AG143P. An entity is permitted to use the exception in paragraph AG143O only if the entity does all the following:

- (a) Manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;
- (b) Provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in IPSAS 20, *Related Party Disclosures*; and
- (c) Is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.

AG143Q. The exception in paragraph AG143O does not pertain to financial statement presentation. In some cases, the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if an IPSAS does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs AG143T–AG143W) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

AG143R. An entity shall make an accounting policy decision in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* to use the exception in paragraph AG143O. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs AG143T–AG143V) and credit adjustments (see paragraph AG143W), if applicable, consistently from period to period for a particular portfolio.

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AG143S. The exception in paragraph AG143O applies only to financial assets, financial liabilities and other contracts within the scope of IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement*, if IPSAS 41 has not yet been adopted). The references to financial assets and financial liabilities in paragraphs AG143O–AG143R and AG143T–AG143W should be read as applying to all contracts within the scope of, and accounted for in accordance with, IPSAS 41 (or IPSAS 29, if IPSAS 41 has not yet been adopted), regardless of whether they meet the definitions of financial assets or financial liabilities in IPSAS 29, *Financial Instruments: Presentation*.

Exposure to Market Risks

AG143T. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs AG143AA and AG143BB).

AG143U. When using the exception in paragraph AG143O, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph AG143O, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.

AG143V. Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (i.e., years 2–5) on a gross basis.

Exposure to the Credit Risk of a Particular Counterparty

AG143W. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (e.g., a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Applying Present Value Techniques to Liabilities and an Entity's Own Equity Instruments not Held by Other Parties as Assets (paragraphs AG143G and AG143H)

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AG143X. When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (e.g., a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for the following:

- (a) Undertaking the activity (i.e., the value of fulfilling the obligation; e.g., by using resources that could be used for other activities); and
- (b) Assuming the risk associated with the obligation (i.e., a risk premium that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph AG143Z).

AG143Y. For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases, the components of the return that market participants would require will be indistinguishable from one another (e.g., when using the price a third party contractor would charge on a fixed fee basis). In other cases an entity needs to estimate those components separately (e.g., when using the price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

AG143Z. An entity can include a risk premium in the fair value measurement of a liability or an entity's own equity instrument that is not held by another party as an asset in one of the following ways:

- (a) By adjusting the cash flows (i.e., as an increase in the amount of cash outflows); or
- (b) By adjusting the rate used to discount the future cash flows to their present values (i.e., as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

Inputs to Measurement Techniques

AG143AA. If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (i.e., Level 1, 2 or 3; see paragraphs C59–C89 of [Draft] IPSAS [X] (ED 77), *Measurement*). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.

AG143AB. [Draft] IPSAS [X] (ED 77), *Measurement*, does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

AG144. Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive

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or pay in a forced transaction, involuntary liquidation or distress sale. However, fair value reflects the credit quality of the instrument. ~~[Deleted]~~

AG145. ~~This Standard uses the terms “bid price” and “asking price” (sometimes referred to as “current offer price”) in the context of quoted market prices, and the term “the bid-ask spread” to include only transaction costs. Other adjustments to arrive at fair value (e.g., for counterparty credit risk) are not included in the term “bid-ask spread.” [Deleted]~~

Active Market: Quoted Price

AG146. ~~A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the end of the reporting period in that instrument (i.e., without modifying or repackaging the instrument) in the most advantageous active market to which the entity has immediate access. However, the entity adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure the financial asset or financial liability. [Deleted]~~

AG147. ~~The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. When current bid and asking prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g., a change in the risk-free interest rate following the most recent price quote for a government bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. Similarly, if the entity can demonstrate that the last transaction price is not fair value (e.g., because it reflected the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. The fair value of a portfolio of financial instruments is the product of the number of units of the instrument and its quoted market price. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts. [Deleted]~~

AG148. ~~If a rate (rather than a price) is quoted in an active market, the entity uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the entity adjusts for those factors. [Deleted]~~

No Active Market: Valuation Measurement Technique

~~AG149. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. [Deleted]~~

~~AG150. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the instrument and (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. [Deleted]~~

~~AG151. Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased. [Deleted]~~

~~AG152. The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (i.e., similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. If conditions have changed since the most recent market transaction, the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued. [Deleted]~~

~~AG153. The same information may not be available at each measurement date. For example, at the date that an entity makes a loan or acquires a debt instrument that is not actively traded, the entity has a transaction price that is also a market price. However, no new transaction information may be available at the next measurement date and, although the entity can determine the general level of market interest rates, it may not know what level of credit or other risk market participants would~~

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~~consider in pricing the instrument on that date. An entity may not have information from recent transactions to determine the appropriate credit spread over the basic interest rate to use in determining a discount rate for a present value computation. It would be reasonable to assume, in the absence of evidence to the contrary, that no changes have taken place in the spread that existed at the date the loan was made. However, the entity would be expected to make reasonable efforts to determine whether there is evidence that there has been a change in such factors. When evidence of a change exists, the entity would consider the effects of the change in determining the fair value of the financial instrument. [Deleted]~~

~~AG154. In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made. [Deleted]~~

Inputs to Valuation Measurement Techniques

~~AG155. An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others).~~

- ~~(a) The time value of money (i.e., interest at the basic or risk-free rate). Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, an entity may use a well-accepted and readily observable general market rate, such as a swap rate, as the benchmark rate. (If the rate used is not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is determined on the basis of its credit risk in relation to the credit risk in this benchmark rate). In some countries, the central government's bonds may carry a significant credit risk and may not provide a stable benchmark basic interest rate for instruments denominated in that currency. Some entities in these countries may have a better credit standing and a lower borrowing rate than the central government. In such a case, basic interest rates may be more appropriately determined by reference to interest rates for the highest rated corporate bonds issued in the currency of that jurisdiction.~~
- ~~(b) Credit risk. The effect on fair value of credit risk (i.e., the premium over the basic interest rate for credit risk) may be derived from observable market prices for traded instruments of different credit quality or from observable interest rates charged by lenders for loans of various credit ratings.~~
- ~~(c) Foreign currency exchange prices. Active currency exchange markets exist for most major currencies, and prices are quoted daily in financial publications.~~
- ~~(d) Commodity prices. There are observable market prices for many commodities.~~
- ~~(e) Equity prices. Prices (and indexes of prices) of traded equity instruments are readily observable in some markets. Present value based techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.~~

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- ~~(f) Volatility (i.e., magnitude of future changes in price of the financial instrument or other item). Measures of the volatility of actively traded items can normally be reasonably estimated on the basis of historical market data or by using volatilities implied in current market prices.~~
- ~~(g) Prepayment risk and surrender risk. Expected prepayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data. (The fair value of a financial liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount – see paragraph 68).~~
- ~~(h) Servicing costs for a financial asset or a financial liability. Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial asset or financial liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables. [Deleted]~~

...

Basis for Conclusions

...

Revision of IPSAS 41 as a result of [draft] IPSAS [X] (ED 77), *Measurement*

BC164. The IPSASB issued [draft] IPSAS [X] (ED 77), *Measurement*, in [Month] [Year]. That Standard provides guidance on measuring assets and liabilities at fair value, which is relevant to the measuring financial instruments. Guidance specific to applying fair value to the measurement of financial instruments was added as application guidance (see paragraphs AG143A–AG143BB).

...

Amendments to IPSAS 42, *Social Benefits*

Paragraphs 12 and AG17 are amended. Paragraph 35B is added. New text is underlined and deleted text is struck through.

...

General Approach

...

Measurement of a Liability for a Social Benefit Scheme*Initial Measurement of the Liability*

12. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability. [Draft] IPSAS [X] (ED 77), *Measurement*, provides guidance on measuring liabilities at cost of fulfillment.**

...

Effective Date

...

- 35B. Paragraphs 12 and AG17 were amended by [draft] IPSAS [X] (ED 77), *Measurement*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 77) at the same time.

...

Application Guidance

This Appendix is an integral part of IPSAS 42.

...

General Approach (see paragraphs 6–21)

...

Measurement of a Liability for a Social Benefit Scheme

...

- AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. IPSAS 14, *Events After the Reporting Date*, and Appendix B of [draft] IPSAS [X] (ED 77), *Measurement*, provides guidance on using this information.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 42.

...

Revision of IPSAS 42 as a result of [draft] IPSAS [X] (ED 77), *Measurement*

- BC164. The IPSASB issued [draft] IPSAS [X] (ED 77), *Measurement*, in [Month] [Year]. That Standard provides guidance on measuring liabilities at the cost of fulfillment, which is relevant to the measuring the liability for social benefits under the general approach. That guidance includes a requirement that a risk adjustment is considered in estimating the cost of fulfillment. Generally, this is not expected to affect the measurement of the liability under the general approach given the short-term nature of most social benefit liabilities.

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BC165. While the guidance on measuring liabilities at cost of fulfillment is not expected to change the measurement of liabilities for social benefits under the general approach in the majority of cases, the IPSASB agreed to amend Illustrative Examples 9 and 10 to avoid references to using information about payments made after the reporting date, which might conflict with the guidance in [draft] IPSAS [X] (ED 77). The IPSASB noted that the provisions in other IPSAS regarding materiality would allow entities to use information about payments made after the reporting date where the effect of doing so was not materially different from using estimates made at the reporting date.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 42

...

General Approach: Recognition and Measurement

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Example 9

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IE37. In this example, it is assumed that there is no difference between the estimates Government I has complete information at the date it pays retirement pensions used in recognizing the liability and the actual amount of pensions paid. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).

IE38. On ~~January 31, 20X9~~ December 31, 20X8, Government I ~~pays~~ recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Government I estimates that, on January 31, 20X9, it will pay retirement pensions totaling CU3,053,576. There are three elements to this ~~payment~~ estimate as follows:

	CU
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

IE39. ~~As at December 31, 20X8, Government I recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are~~

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~~issued after the January 20X9 retirement pensions have been paid, Government I uses the information available at that time to prepare its financial statements. [Deleted]~~

- IE40. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions that will be paid to those pensioners eligible at December 31, 20X8 and who are estimated to remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions that will be paid to those pensioners eligible at December 31 who ~~died~~ are estimated to die during January 20X9 (CU36,420). The liability does not include the pro-rated pensions that will be paid to those who ~~reach~~ are estimated to reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.
- IE41. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	CU
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and <u>estimated to remaining</u> eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who <u>are estimated to</u> died during January 20X9 (recognized in December 20X8)	36,420
Total	36,485,544

Example 10

...

- IE46. In this example, it is assumed that there is no difference between the estimates State Government J used in recognizing the liability and the actual amount of ~~has complete information at the date it pays~~ unemployment benefits paid. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).
- IE47. On ~~July 15, 20X2~~ June 30, 20X2, State Government J ~~pays~~ recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. State Government J estimates that, on July 15, 20X2, it will pay unemployment benefits totaling CU132,952. There are four elements to this payment estimate as follows:

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	CU
Unemployment benefits <u>to be</u> paid to unemployed persons eligible at June 15, 20X2 and <u>estimated to remaining</u> eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits <u>to be</u> paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had <u>was estimated to come</u> to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits <u>to be</u> paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits <u>to be</u> paid to those unemployed persons who <u>were estimated to become</u> became eligible between July 1, 20X2 and July 15, 20X2	4,812
Total	132,952
<p>IE48. As at June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government J uses the information available at that time to prepare its financial statements. [Deleted]</p>	
<p>IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:</p> <ul style="list-style-type: none"> (a) The unemployment benefits <u>that will be</u> paid to those unemployed persons eligible at June 15, 20X2 and <u>who are estimated to remaining</u> eligible at July 15, 20X2 (CU113,120); (b) The pro-rated unemployment benefits <u>that will be</u> paid to those unemployed persons eligible at June 15, 20X2 whose eligibility <u>is estimated to</u> had come to an end by July 15, 20X2 (CU9,975); and (c) The pro-rated unemployment benefits <u>that will be</u> paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045). 	
<p>IE50. The liability does not include the pro-rated unemployment benefits <u>that will be</u> paid to those who <u>are estimated to become</u> became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.</p>	
<p>IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:</p>	
	CU
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131

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CU

Unemployment benefits <u>estimated to be paid</u> in July 20X2 to unemployed persons eligible at June 15, 20X2, both those <u>estimated to remaining</u> eligible and those whose eligibility had <u>is estimated to</u> come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	128,140
	1,714,949

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 77).

Introduction

The Purpose of Measurement in Public Sector Financial Statements

- BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities and related revenues and expenditures that users need for accountability and decision making. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as:
- (a) Whether the entity provided its services to constituents in an efficient and effective manner;
 - (b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
 - (c) To what extent the burden on future-year taxpayers of paying for current services has changed; and
 - (d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

Service Delivery Objective and Public Sector Assets and Liabilities

- BC2. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, in the public sector the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities is specialized—for example, roads and military assets. There may be a limited market for specialized assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.
- BC3. Another common feature of public sector assets is that they are held to achieve policy objectives, such as service delivery, which need to be taken into account when measurement aims to derive a value that reflects existing use.
- BC4. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.
- BC5. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by

disasters. In addition, many governments have obligations that arise from monetary activities such as currency in circulation.

Measurement of Assets and Liabilities for Financial Reporting by Public Sector Entities

- BC6. Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In developing Chapter 7 the IPSASB took into account the special characteristics of the public sector, the needs of users, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.
- BC7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.
- BC8. The objective of measurement and the measurement bases in Chapter 7 of the Conceptual Framework address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows.
- BC9. 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.

Relationship Between ED 77, Measurement and Other IPSAS

- BC10. During development of this ED the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one Standard, in order to provide a comprehensive "one stop shop". However, the IPSASB concluded that other IPSAS should address impairment, depreciation, amortization, and any specific measurement requirements relating to the assets or liabilities covered by the IPSAS, for example the measurement of intangible assets or of employee benefit liabilities. [Draft] IPSAS [X], ED 77, *Measurement*, should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework. The aim is to support consistent application of measurement bases referred to in other IPSAS.
- BC11. The IPSASB decided to develop appendices for the following four measurement bases: historical cost, current operational value, fair value, and cost of fulfillment because the greater need for guidance relates to these four measurement bases.

Objective (paragraph 1)

- BC12. ED 77's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which measurement bases should be used in IPSAS. The ED's objective refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.

Structure of Measurement Standard

- BC13. One objective of the measurement project is to provide detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used.
- BC14. In order to satisfy this objective, the IPSASB agreed core text should define key terms and provide generic principles for measurement bases and techniques while the appendices would expand on principles for measurement bases and outline how measurement techniques are applied when estimating the value of an asset or liability measured by a specific measurement basis.
- BC15. The IPSASB concluded this structure is appropriate because:
- (a) Core text stands alone. Including principle level guidance for measurement bases and measurement techniques in the core text allows it to be read and applied independently of the appendices.
 - (b) Minimal duplication. The most significant challenge to overcome in structuring the material was to reduce the duplication of measurement technique guidance between the core text and the appendices, and within the appendices. This was a challenge because some measurement techniques can be applied to more than one measurement basis. The structure of the [draft] Standard allows for key measurement techniques and principles to be included once in the core text, and application of those principles to each measurement basis to be included in the appropriate appendix.

Scope and Definitions (paragraphs 2–6)

- BC16. ED 77's scope conveys that the [draft] Standard's definitions of measurement bases and related appendices apply when another IPSAS requires measurement using one of the defined measurement bases. As part of its scoping decision, the IPSASB considered whether the ED should include guidance on the measurement of assets held for sale, as envisioned in ED 79, *Non-Current Assets Held for Sale and Discontinued Operations*. The IPSASB noted that the issues relating to the measurement of assets held for sale are similar to those relating to the measurement of impaired assets, which is outside the scope of the project. Therefore, the IPSASB decided that the measurement of assets held for sale should also be excluded.

Initial Measurement (paragraphs 7–16)

- BC17. The IPSASB discussed the applicability of the measurement hierarchy to initial and subsequent measurement and concluded that it is applicable to measurement in the financial statements (i.e., subsequent measurement).
- BC18. Unless otherwise required or permitted by another IPSAS, on the transaction date an asset or liability is initially measured at its transaction price or, when the transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes, at a deemed cost. This approach is applied regardless of whether the current value model or historical cost model is applied when measuring assets and liabilities in the financial statements. For this reason, the IPSASB concluded that initial recognition in the financial statements is based on a measurement after the transaction date and thus the hierarchy applies to subsequent measurement.

- BC19. A transaction price is applied, where appropriate, because transactions occurring in orderly markets are negotiated between parties at arm's length and are presumed to faithfully present the economics of the transaction. The transaction price is therefore useful for decision-making purposes and to the users of the financial information to hold decision-makers to account. Where transaction price is not appropriate, a deemed cost is calculated using a current value measurement technique to approximate the value of the asset or liability on the transaction date.
- BC20. After measurement on the transaction date the entity makes an accounting policy choice, where permitted, to apply a historical cost model or current value model to reflect the measurement objective of the item being measured. The accounting policy choice impacts the measurement when the item is first, and subsequently, recognized in the financial statements.

Amendments to Other IPSAS

- BC21. The initial measurement guidance developed in [draft] IPSAS [X], ED 77, is principles-based and broadly applicable across the IPSAS suite of standards. When making amendments to other IPSAS as a result of [draft] IPSAS [X], ED 77, the IPSASB agreed the initial measurement requirements in individual IPSAS would not be replaced by the initial measurement principles in [draft] IPSAS [X], ED 77. The IPSASB concluded the more specific initial measurement guidance in specific IPSAS continues to be relevant and therefore should be retained.

Subsequent Measurement (paragraphs 17–53)

Use of the Historical Cost Model or Current Value Model

- BC22. The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB considered the options for measurement subsequent to initial recognition in existing IPSAS with a view to eliminating or reducing those options.
- BC23. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).
- BC24. The Conceptual Framework goes on to state that it is not possible to identify a single measurement basis that best meets the measurement objective and acknowledges both historical cost and current value measurements.
- BC25. The IPSASB concluded that:
- (a) Where an accounting policy choice exists in an IPSAS to measure using the historical cost model or current value model, it would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and
 - (b) Such a step would be outside the scope of this ED, which is to provide requirements and guidance on the definitions and application of measurement bases (i.e., what is meant by each measurement basis and how to derive measurement bases), rather than to specify where they should be used. The latter is a decision for individual standards.
- BC26. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Conceptual Framework Consultation Paper and ED on Measurement advocated the continued widespread use of historical cost, mostly in combination with other measurement bases. Supporters of historical cost referenced the accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.

BC27. Conversely, those who supported current values linked this view to both decision making and accountability, arguing that the cost of service provision should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price.

Historical Cost (Appendix A)

Financial Instruments Measured at Historical Cost

Amortized Cost

BC28. The amortized cost of a financial asset or financial liability reflects estimates of future cash flows discounted at a rate that is not updated after initial recognition. For loans given or received, if interest is receivable or payable regularly, the amortized cost of the loan typically approximates the amount originally paid or received. Therefore, the amortized cost of a financial asset or liability is considered to be a form of historical cost.

Current Operational Value (Appendix B)

BC29. Most responses to the April 2019 Measurement Consultation Paper agreed with the IPSASB's preliminary view that fair value is relevant and applicable in measuring some assets and liabilities in the public sector. Constituents' concerns with fair value related to the fact that when an item is held for its operational capacity, as is often the case in the public sector, fair value is difficult and inappropriate to apply because the following concepts generally are not applicable:

- (a) Highest and best use; and
- (b) Maximizing the use of market participant data.

BC30. While respondents agreed the fair value definition proposed is applicable in some circumstances, they also noted the definition is unlikely to be appropriate as a current value measurement basis in most cases. Respondents expressed the view that a public sector specific measurement is required.

BC31. The IPSASB agreed with respondents' views and developed a current value measurement basis unique to the public sector. Given fair value is applied to items held for their financial capacity, this basis was developed specifically for assets held for their operational capacity.

BC32. When assets are held for their operational capacity in the public sector, they are held to achieve a service delivery objective. Holding an asset to meet a service delivery objective often results in an asset being held in a capacity other than that of one that satisfies its highest and best financial use. For example, an entity may have a service delivery objective to provide medical services to citizens of a city center. While operating a building the entity owns as a hospital may not be in the best financial interests of the entity, it does satisfy the service delivery objective.

BC33. The IPSASB agreed that, when an asset is held for its operational capacity, the most relevant information to the users of financial information is the current value of the asset in its current use. This provides users with useful information in the public sector:

- (a) In the statement of financial position, it reflects the amount an entity would incur at the measurement date to replace the capacity to achieve its present service delivery objective using its existing assets.
- (b) In the statement of financial performance, the consumption of the asset, through depreciation, reflects the amount the entity would incur during the period to provide the

service at the prevailing prices when an asset is measured. This differs from historical cost, which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired.

Current Operational Value – Service Delivery Objective

- BC34. The term service delivery objective was used to define current operational value to emphasize the development of the measurement basis related to the measurement of assets held for their operational capacity. While assets used to achieve the entity's service delivery objective may generate cash flows, that is not the service delivery objective.
- BC35. For example, the federal government may have a service delivery objective to issue passports to its citizens as a means of identification for international travel. Many federal governments generate cash flows from this activity. However, the objective is to provide a service, while the cash flows generated contribute to covering costs.

Current Operational Value – Surplus Capacity

- BC36. Respondents to the Measurement Consultation Paper identified highest and best use as a concept that is not applicable when measuring certain assets held in the public sector. Where an entity elects to forgo capacity, the IPSASB discussed whether this capacity should be included in the measurement of current operational value. The IPSASB discussed several examples, including the following two:
- (a) An entity operates a building at 80% capacity. The surplus capacity is not expected to be used during the building's useful life, although there are no specific constraints (such as security requirements) that prevent its use; and
 - (b) A school was constructed with a capacity of 500 students. When the school was first opened, enrollment was at capacity. In subsequent decades, demographic shifts have reduced enrollment to 300 students. The expected enrollment for the remaining service life of the asset is 300 students.
- BC37. The IPSASB agreed surplus capacity should be included, except to the extent the asset is impaired in accordance with IPSAS 21 and IPSAS 26, when measuring current operational value because this represents the current value of the asset used to provide the service rather than the amount required to achieve the entity's present service delivery objectives in a hypothetical situation.

Current Operational Value – Alternative Sites

- BC38. The IPSASB noted that, in carrying out a valuation under the cost approach, valuation professionals would consider the cost of a site suitable for the delivery of the service delivery objectives from a modern equivalent asset. This might be a site of a similar size and in a similar location to the actual site. Where the actual site would no longer be considered appropriate because, for example, the service would be delivered more efficiently or effectively from another location, a hypothetical site in an appropriate location would be used as the basis for the land valuation, subject to discussion and agreement with the entity.
- BC39. Despite this, the IPSASB agreed that a valuation based on an alternative site would not achieve the objective of a current operational value measurement because it would not provide a value of the existing asset in its current use. Such valuations should be based on delivering the entity's service delivery objectives from the current site.

BC40. The IPSASB noted that measuring land held for its operational capacity at its current location, total capacity and actual size may result in a valuation that is similar to a market participant valuation, or fair value.

Current Operational Value – Restrictions

BC41. The IPSASB is of the view that not all restrictions of the types referred to in paragraph B13 would reduce the entry price for an asset's service potential compared with the price of an equivalent unrestricted asset. Some of those restrictions legally limit an asset's operation to providing a particular service (for example, providing free or subsidized health services) but the nature of the asset effectively precludes alternative uses of the asset, in which cases the legal restriction has little (if any) effect on the asset's value. This would often occur with specialized assets.

BC42. In some cases, a restriction on the use of an asset or the prices that may be charged to users of the asset's services would reduce the net cash inflows the asset is expected to generate and/or the asset's selling price, compared with those amounts without the restriction. However, such effects might not be accompanied by a reduction in the current entry price of the service potential embodied in the asset considered when estimating the asset's current operational value.

BC43. The only circumstance in which a restriction would reduce the current entry price of the service potential embodied in the asset—and therefore reduce the asset's estimated current operational value—is where an equivalent restricted asset is obtainable in an orderly market. In such a circumstance, the vendor of the replacement asset to the public sector entity could obtain only a reduced amount from any prospective purchaser. Therefore, the public sector entity could replace the service potential embodied in its restricted asset for a reduced price.

BC44. However, if an equivalent restricted asset were not obtainable in an orderly market to replace the service potential of the restricted asset being measured, the public sector entity would have no choice but to purchase an equivalent unrestricted asset (the price of which reflects its superior cash-generating ability to other bidders for the asset) to replace the service potential embodied in the asset. In this latter circumstance, the service potential of the asset held for its operational capacity would be no greater to the public sector entity, but the current entry price of that service potential would be greater (compared with the current entry price if an equivalent restricted asset were obtainable in an orderly market).

BC45. Where an equivalent restricted asset is obtainable in an orderly market, the market entry price of an equivalent restricted asset would already reflect any effects that the restrictions have on the current entry price of the service potential embodied in the asset. That is, the restrictions would be taken into account in the measurement of the asset's current operational value, but would be implicit in the market price of the equivalent restricted asset, and therefore no explicit adjustment would be necessary. Where an equivalent restricted asset is obtainable in an orderly market, to be used in the measurement of the restricted asset's current operational value, it is necessary that the price of the equivalent restricted asset is supported by observable market evidence. This criterion is included to enable reliance to be placed on the value of that equivalent asset as an input to faithful representation of the restricted asset's current operational value. Where the price of the equivalent restricted asset is not supported by observable market evidence, the asset is measured at the price of an equivalent unrestricted asset.

Current Operational Value – Measurement Techniques

- BC46. To support the application of current operational value, the IPSASB agreed each of the measurement techniques (market approach, cost approach and income approach) reflects the attributes of the measurement basis and can be applied in estimating the value of the asset when measured at current operational value. No hierarchy was developed to select the measurement technique. The IPSASB agreed the selection of the measurement technique that approximates the value of the asset under current operational value should be based on professional judgment. In most cases the IPSASB believes the selection should be straightforward as the measurement technique is generally selected based on the data available to the entity measuring the asset.
- BC47. For example, an active market for an identical asset may exist for certain types of assets. In these circumstances applying the market approach is likely to be a straightforward valuation. As the asset becomes more specialized, the existence of an active market likely decreases. In these circumstances the cost approach or the income approach is relevant. However, given public sector assets often generate little to no cash flows, and generally cash flows are insufficient to cover operating expenses, the IPSASB expected the application of the income approach when estimating the value of an asset under the current operational value basis to most likely be applied in conjunction with another measurement technique in estimating the present value of an amount that is unavailable at the measurement date.

Use of Current Operational Value throughout IPSAS

- BC48. A review of existing IPSAS was performed to determine whether the public sector specific measurement basis, current operational value, should be added to, or replace, existing measurement bases in each IPSAS.
- BC49. The IPSASB agreed current operational value should be available to estimate the value of property, plant, and equipment within the scope of [draft] IPSAS [X], ED 78. The IPSASB added current operational value to historical cost and fair value as measurement bases available to estimate property, plant, and equipment because many items of property, plant, and equipment are held for their operational capacity in the public sector, which may not be accurately represented when applying fair value.
- BC50. The IPSASB identified other instances where current operational value may be appropriate throughout its literature. However, the IPSASB agreed any additional changes to measurement bases are best made through projects specific to the IPSAS in question to allow stakeholders to focus on the impact of the proposal. The IPSASB did not propose current operational value be added to any other IPSAS when this [draft] Standard was issued.

Fair Value (Appendix C)

- BC51. This ED has an appendix for the fair value measurement basis. During development of this ED the IPSASB considered whether the fair value measurement basis was relevant to measuring assets and liabilities held by public sector entities. The IPSASB concluded that:
- (a) There are assets and liabilities held by public sector entities that should be measured at fair value; and,
 - (b) The term “fair value” should have the same meaning as that established by IFRS 13, *Fair Value Measurement*.

BC52. In reaching these two conclusions the IPSASB noted that there were references to fair value throughout IPSAS. However, the definition of fair value in the initial suite of IPSAS was derived from a pre-IFRS 13 definition. IFRS 13 defines fair value as an exit value, as follows:

Fair value 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.

BC53. The IPSASB's 2014 Conceptual Framework did not include fair value in its list of measurement bases because the IPSASB considered that the IFRS 13 meaning of fair value would not be appropriate for many public sector assets and liabilities, because it is an exit value. However, during the development of this [draft] Standard the IPSASB's work on financial instruments has demonstrated that an exit-based definition of fair value is relevant for many financial instruments and more generally assets held for financial rather than operational capacity.

BC54. The IPSASB decided, with support from members of its Consultative Advisory Group (CAG), that if the term "fair value" continues to be used in IPSAS, the same meaning as that in IFRS 13 should apply. This avoids confusion and supports good quality measurement, when using this measurement basis.

BC55. In June 2018 the IPSASB approved IPSAS 41, *Financial Instruments*, which is an IFRS-aligned IPSAS. IPSAS 41 identifies fair value as a measurement basis applicable to financial instruments. The IPSASB had already decided, in September 2017, that the Measurement project should allow for measurement at fair value, with the issue being one of how to integrate the IFRS 13 definition of fair value into IPSAS. The IPSASB decided that [draft] IPSAS [X], *Measurement*, should include the majority of IFRS 13 text to ensure that its definition of fair value would be consistent with that in IFRS 13, and adequately support IPSAS 41's requirements with respect to measurement of financial instruments at fair value. On that basis the ED's fair value appendix has reproduced the majority of IFRS 13 text and aims to ensure that the ED's definition of fair value is the same as that established in IFRS 13.

Use of Fair Value throughout IPSAS

BC56. A review of existing IPSAS was performed to determine whether the updated fair value was applicable in IPSAS where the legacy "fair value" definition was applied. The IPSASB considered the components of the IFRS 13 definition of fair value to identify the key indicator or indicators of the appropriateness of fair value. The IPSASB concluded that the exit vs. entry distinction is not useful in selecting measurement bases (see BC7.16–BC7.19 of the IPSASB Conceptual Framework). The IPSASB noted that some jurisdictions considered the specialized vs. non-specialized distinction to be useful in considering whether fair value is an appropriate measurement basis. The IPSASB concluded that while the specialization of an asset is a useful distinction, it is not a clear determinant when assessing the appropriateness of fair value. Rather, the IPSASB agreed that an entity's intent to hold the asset or liability for either financial or operational capacity is the clearest indicator. The IPSASB concluded that fair value is an appropriate measurement basis when the asset is held, or the liability incurred, primarily for its financial capacity.

BC57. The IPSASB also cautioned against a "blanket approach" of fair value appropriateness by Standard, as there may be instances where the use of fair value appropriateness may differ by reporting entity in a consolidation, or where a cash-generating or non-cash-generating asset may have hybrid measurement objectives. It is important to consider transaction-specific and entity-specific considerations within each IPSAS when selecting measurement bases.

- BC58. In cases where assets held for operational capacity and assets held for financial capacity are within the scope of the same IPSAS, an entity should exercise professional judgment, consider entity- and transaction-specific factors, and apply accounting principles in existing IPSAS. The primary measurement objective, and in turn the measurement basis, is determined for each individual asset or class of assets (i.e., assets with similar nature and use to an entity's operations within the same IPSAS). The IPSASB concluded that accounting principles to guide an entity to group assets of similar nature and determine the intended primary objective are sufficiently illustrated in existing IPSAS guidance.
- BC59. The IPSASB concluded that the need for consequential amendments will be decided on a case-by-case basis in accordance with [draft] IPSAS [X], *Measurement*. In performing this analysis, the IPSASB reviewed each IPSAS and decided to retain the term fair value throughout IPSAS and apply this [draft] Standard's definition except for:
- (a) IPSAS 13, *Leases*, ([draft] IPSAS [X], *Leases*) where the term and existing fair value definition in IPSAS 13 are retained;
 - (b) IPSAS 21, *Impairment of Non-Cash-Generating Assets*, where the term and existing fair value definition in IPSAS 21 are retained; and
 - (c) IPSAS 32, *Service Concession Arrangements: Grantor*, where the term and existing fair value definition in IPSAS 32 are retained.

In each instance where the term and existing fair value definition are retained, the IPSASB decided changes to these definitions of fair value should be considered as part of any projects specific to these IPSAS.

- BC60. As noted in BC10, guidance in [draft] IPSAS [X], ED77, is generic in nature. As such, specific measurement guidance in IFRS 13 has been located in the applicable IPSAS. For example, IFRS 13 paragraphs 34–56 and 70–71 are specific to measuring financial instruments and have been added to IPSAS 41, *Financial Instruments*.

Value in Use

- BC61. One of the project's objectives was to provide more detailed guidance on the implementation of commonly used measurement bases and the circumstances under which these measurement bases will be used. In considering whether this [draft] Standard should include measurement guidance related to value in use, the IPSASB concluded value in use:
- (a) Is not commonly used – value in use is limited to impairment evaluations in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*; and
 - (b) Is well understood both in application and identifying when it should be applied – IPSAS 21 and IPSAS 26 include extensive measurement guidance when applying a value in use measurement.
- BC62. The IPSASB agreed including value in use guidance in this [draft] Standard is unnecessary. This decision was supported by responses to the IPSASB Measurement Consultation Paper.

Application of Measurement Techniques

- BC63. Since measurement techniques consider the attributes of measurement bases, some techniques can be applied to multiple bases. As such, the IPSASB decided to place generic measurement

technique guidance in the core text to reflect the generic nature of the measurement technique and enable that guidance to be applicable across multiple measurement bases.

BC64. The IPSASB considered how a measurement technique can be used to estimate a value of an asset or a liability under a measurement basis when a public sector entity uses data available to estimate and reflect the attributes of that basis. Based on this analysis, the IPSASB concluded:

- (a) The market approach can be used to estimate measures under the fair value and current operational value measurement bases;
- (b) The income approach can be used to estimate measures under the current operational value, fair value and cost of fulfillment measurement bases; and
- (c) The cost approach can be used to estimate measures under the fair value and current operational value measurement bases.

The IPSASB noted that judgment is required to select and apply the most appropriate technique to estimate a value of an asset or a liability under a particular measurement basis for each transaction, or event, that best meets the objective of that basis.

Depreciation and Amortization

BC65. Depreciation is a charge for the consumption of an asset over its useful life. ED 77 does not address depreciation. Requirements and guidance on depreciation are provided at standards level. For example, IPSAS 17, *Property, Plant and Equipment*, addresses:

- (a) The unit of account for depreciation;
- (b) The recognition of depreciation;
- (c) The point at which depreciation of an asset begins;
- (d) The relationship between economic and useful lives;
- (e) The circumstances under which land may be depreciated;
- (f) Depreciation methods; and
- (g) The relationship between the revenue generated by an asset and depreciation.

BC66. Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level, and ED 77 does not address amortization. IPSAS 31, *Intangible Assets*, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.

BC67. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example, IPSAS 17 requires that assets on the revaluation model with useful lives are depreciated. IPSAS 16, *Investment Property*, does not require depreciation of an investment property that is measured in accordance with the current value model subsequent to initial recognition.

Disclosures

BC68. The scope of the measurement project included the development of enhanced measurement disclosures that would apply across the IPSAS. In developing disclosures, the IPSASB agreed no

additional disclosures are required for assets and liabilities measured using the historical cost model. As no remeasurement occurs, there is no additional information to disclose as part of subsequent measurement.

- BC69. For assets and liabilities measured using the current value model, the IPSASB agreed additional disclosures are required. With recurring remeasurements, new information is available as at each measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making.
- BC70. The IPSASB developed disclosures that are to be applied consistently across the IPSAS that require assets or liabilities be measured using a measurement basis available in the current value model. These disclosures were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied.

Transition

- BC71. The IPSASB concluded that although [draft] IPSAS [X], ED 77 is a major new standard that incorporates the IFRS 13, fair value concept into IPSASB literature, much of the [draft] Standard is a codification of existing measurement guidance currently spread across many individual IPSAS. [Draft] IPSAS [X], ED 77 brings together generic measurement guidance, while transaction-specific guidance remains in those individual IPSAS.
- BC72. Consequently, the IPSASB decided that [draft] IPSAS [X], ED 77 should be effective for annual periods beginning on or after [Month Day, Year]. Because [draft] IPSAS [X], ED 77 applies when other IPSAS require or permit application of the measurement bases (and does not introduce any significantly new measurement principles), the IPSASB believes that the extended transition period for [draft] IPSAS [X], ED 77 provides enough time for entities, their auditors and users of financial statements to prepare for implementation of its requirements.
- BC73. The IPSASB proposed prospective application because a change between current value measures would be inseparable from a change in the current value measurements (i.e., as new events occur or as new information is obtained, e.g., through better insight or improved judgment). Therefore, the IPSASB concluded that [draft] IPSAS [X], ED 77 should be applied prospectively (in the same way as a change in accounting estimate).

Alternative View

Alternative View of Mr. Todd Beardsworth and Mr. Mike Blake

AV1. Mr. Beardsworth and Mr. Blake disagree with the definition of current operational value and aspects of the related requirements proposed in ED 77.

Definition Proposed in ED 77

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

AV2. Their main areas of disagreement with the proposals are as follows:

- The income approach is not appropriate as a measurement technique for current operational value;
- The lack of clarity in the proposed definition of current operational value risks not achieving the qualitative characteristics of financial reporting;
- The proposed definition of current operational value could permit either entry or exit values; and
- The lack of clarity about the accounting for surplus capacity.

AV3. Mr. Beardsworth has also expressed an alternative view on the proposed definition of current operational value in ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* on the grounds that the proposed definition:

- Is unclear;
- Risks not achieving the qualitative characteristics of financial reporting; and
- Should focus on the cost of replacing an asset used for its service potential.

AV4. Mr. Beardsworth and Mr. Blake therefore consider there should be a different definition of current operational value (as shown below) to that proposed in ED 77.

Definition Proposed in this Alternative View

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

The Income Approach is not Appropriate for Current Operational Value

AV5. ED 77 identifies the measurement techniques to be used when applying the measurement bases. ED 77 paragraph B24 states that the market, cost and income approaches may be used to measure the current operational value of an asset. Mr. Beardsworth and Mr. Blake disagree with permitting the use of the income approach for measuring current operational value. Public sector entities often hold and use assets for their service potential, even though the cash flows (or revenue and expense flows) to be generated from that asset are less than the cost of the asset or the fair value of the asset. Allowing an entity to use the income approach for assets held for operational purposes runs the risk that assets will be measured at inappropriately low amounts, making it difficult for users to identify the remaining service potential of such assets. They consider that replacement cost measures would more appropriately reflect the service potential embodied in assets and the current cost of providing services using those assets.

AV6. ED 77 outlines the measurement techniques that may be used when determining current operational value. It requires an entity to maximize the use of observable inputs and minimize the

use of unobservable inputs. Mr. Beardsworth and Mr. Blake note that, although more observable inputs might sometimes be available for the income approach than for the other techniques, as mentioned in the previous paragraph it might result in an amount not reflecting the remaining service potential embodied in the asset.

- AV7. They also note the view that the current value of operational assets should not exceed the amount that the entity can afford to pay to replace such assets. In this respect, some entities may have funding limited to particular sources or restricted revenue amounts and under that view it would not be appropriate to apply the market approach or the cost approach where doing so assumes future outlays greater than the amounts the entities could afford to spend, having regard to their funding constraints. Under that view, it is contended that using the income approach would more appropriately represent the assets' service potential because that service potential is capped by the finite sources of net cash inflows to finance the assets' replacement.
- AV8. Mr. Beardsworth and Mr. Blake do not consider this to be a valid reason to apply the income approach to estimate the current operational value of assets. Using the income approach to reflect funding constraints upon the entity (i.e. the ability to finance replacements) would conflate the value of the asset's service potential with the entity's sources of funding. The more appropriate place to reflect funding constraints is the statement of financial performance, in which depreciation of assets based on current entry price would be compared with revenues that, in the circumstances of the entities described above, are likely to only partially recover the cost of services provided.
- AV9. Mr. Beardsworth and Mr. Blake consider that the logical extension of capping the measurement of the service potential embodied in assets to the amount of net cash inflows available to support their replacement would be measuring the current value of all assets held for their operational capacity by reference to the net cash inflows they are expected to generate. However, they note that this would be a radical departure from the IPSASB's current approach to identifying and recognizing impairments of non-cash-generating assets.
- AV10. In addition, they observe that measuring an asset's service potential using current entry prices reflects an assumed *hypothetical* asset replacement, the validity of which does not depend on whether the asset will actually be replaced. For example, a public sector entity might scrap an asset without replacing it at the end of its useful life. Regardless of whether an asset is ultimately replaced, throughout its useful life its current entry price represents the cost currently avoided (in pursuing the entity's service delivery objectives) as a result of controlling the asset.
- AV11. As noted above, they consider that the definition of current operational value should focus on the cost to replace the service potential embodied in the asset. The income approach is generally inconsistent with this concept. In their view, applying the income approach results in an amount that reflects the cash flows (or revenue and expenses) expected to be generated by the asset. In many cases, such an amount would not represent the cost of replacing the service potential embodied in an asset, particularly if (due to restrictions affecting the entity or the entity's own policy) the entity does not charge for the services provided by using the assets, or if the charges for these outputs are below-market charges, and the entity bases the asset's measurement on the entity's expected cash flows.
- AV12. They are aware of the view that, to measure the current operational value of an asset, the income approach could be applied by measuring the present value of amounts that the entity could receive if it were to charge market prices for an asset's outputs. However, they also disagree with

applying that version of the income approach to measure the current operational value of an asset because the amount calculated could still differ from the amount that suppliers of the asset would charge the entity to replace it (which would reflect the highest and best use of the asset to other market participants in the entry market for the asset, which might be unrelated to the market prices for the entity's outputs).

Lack of Clarity Risks not Achieving the Qualitative Characteristics

AV13. Mr. Beardsworth and Mr. Blake consider that the lack of clarity in the definition of current operational value could lead to its inconsistent application. This could result in entities in similar circumstances determining different amounts for similar assets, which would adversely affect the comparability of current operational values across entities. The lack of clarity could also lead to the definition being applied in ways that were not intended. This could adversely affect the relevance and faithful representation of reported amounts.

Current Operational Value as Defined could Include Entry and Exit Values

AV14. Paragraph 25 of ED 77 states that current operational value is an entry value. This is an entity-specific *entry price* at the measurement date under current market conditions. However, ED 77 permits current operational value to be determined using the income approach, which is an exit value, based on the description of exit values in paragraph 7.8 of the IPSASB Conceptual Framework (and paragraph 7.19 of the updated Conceptual Framework proposed in ED 76). Mr. Beardsworth and Mr. Blake consider that the resulting measurement would still be an exit price if an entity applying the discounted cash flow method under the income approach used entity-specific assumptions for cash flows and the discount rate.

AV15. They consider that a measurement basis should have a clear focus and be able to be described as generating either entry values or exit values. This would not preclude more than one technique being used when applying a particular measurement basis, but it would require the objective of the measurement basis to be clear. However, the potential use of both entry and exit values for the proposed measurement basis would be confusing for constituents. It would make it harder for them to identify the objective of the measurement and to identify which technique is most appropriate. This could lead to a lack of comparability.

Lack of Clarity about Accounting for Surplus Capacity

AV16. Paragraph B11 of ED 77 states that "current operational value assumes the asset is used to its full capacity, subject to any tests for impairment in accordance with IPSAS 21 or IPSAS 26". However, paragraph B36 of ED 77 also states that, when measuring an asset's current operational capacity, deductions are made for particular forms of obsolescence, including 'economic (or external) obsolescence'. Circumstances in which economic (or external) obsolescence might be regarded as arising include some instances of reductions in demand for the services an asset is capable of providing. Such reductions in demand might also be regarded as a potential source of an asset's surplus capacity. Mr. Beardsworth and Mr. Blake are concerned that ED 77 does not provide guidance on (a) how to classify a reduction in an asset's use resulting from a reduction in demand for its services as either a potential source of impairment or a potential reduction in the asset's current operational value, and (b) whether a difference in classification might cause a difference in the asset's carrying amount. They consider that this lack of clarity could lead to current operational value being overstated or understated, depending upon how an entity interprets the proposed requirements.

- AV17. Furthermore, they consider it is important to clarify that when an asset includes surplus capacity that is severable from the asset (e.g. surplus land that could be sold or leased separately), the unit of account for measurement should be bifurcated – with the severable part of the asset that is surplus to operating requirements classified and measured as an asset held for its financial capacity.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] ED (X), Measurement.

Section A: Attributes of Measurement Bases

A.1 What are the attributes of each measurement basis

What are the attributes of each measurement basis?

	Fair Value	Current Operational Value	Cost of Fulfillment	Historical Cost
Asset Valuation	X	X		X
Liability Valuation	X		X	X
Exit Value	X		X	
Entry Value		X		X
Entity Specific		X	X	X
Market Inputs	X	X		
Market Participant	X			
Non-Performance Risk	X			
Risk Premium	X			
Current Market Conditions	X	X	X	
Principal or most advantageous market	X			
Highest and Best Use	X			
Least costly manner		X	X	

Section B: Selection of Measurement Bases

B1. How does an entity determine the intended primary measurement objective of an asset?

Where an asset is used for both cash-generating and non-cash-generating purposes, an entity shall determine the primary objective of holding the asset in order to select the appropriate measurement basis. An entity should apply professional judgment and consider the principles outlined in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, (paragraphs 16–21) to determine the asset's intended primary objective. Where an entity is unable to do so using those principles, an entity shall presume that the asset is non-cash-generating given the overall objective of the public sector.

Section C: Use of Experts

C1. **Who should carry out a valuation of assets or liabilities?**

Responsibility for obtaining a valuation of asset(s) or liability(ies) for financial accounting and reporting purposes rests with the preparer of the relevant financial statements. However, the valuation should be carried out by an individual (or organization) with the relevant expertise to provide a valuation that faithfully represents the values of the asset(s) or liability(ies) in the financial statements in accordance with IPSAS 1, *Presentation of Financial Statements*, paragraph 27.

The nature of the asset(s) or liability(ies) will guide the preparer of the financial statements in determining what field of expertise is required. For example: the measurement of liabilities arising under a pension scheme will require the input of an actuary; the measurement of medical plant and

equipment assets will involve discussions with clinicians and procurement experts; those responsible for the management of vehicle fleets will need to be involved with the valuation of those fleets; the measurement of any legal claims against the entity (liabilities) will involve discussions with the entity's legal advisors; the valuation of infrastructure assets will involve engineers and surveyors; and the valuation of land and buildings will need to be carried out by appropriately qualified surveyors.

C2. What type of information will the valuation specialist require in order to carry out a valuation?

The entity and the valuation specialist will need to discuss and agree the nature and scope of the valuation assignment prior to the assignment being undertaken. The information that the valuation specialist will require depends in part on the nature of the asset(s) or liability(ies) to be valued.

The information that the entity will need to give to the valuation specialist in order that the specialist can carry out a valuation will generally include some or all of the following.

- (a) The purpose of the valuation. An entity might require a valuation of its assets or liabilities for a variety of reasons, and the purpose might determine the basis of valuation that the expert will adopt. The purpose of the valuation in applying this [draft] Standard is for inclusion in the entity's financial statements. The entity should inform the valuation specialist that the financial statements will be prepared in accordance with IPSAS; a copy of the relevant IPSAS (or the relevant extract) might usefully be supplied to and discussed with the valuation specialist. Any discussion between the entity and the valuation specialist should clarify what valuation work will be carried out and any specific disclosures required to accompany the valuation in order to ensure that the precise accounting needs are addressed.
- (b) The asset(s) or liability(ies) being valued. The entity and the valuation specialist need to agree what asset(s) or liability(ies) are to be valued for inclusion in the financial statements. The valuation specialist will need:
 - (i) To understand the entity's legal interest in each asset or liability, and whether the whole or only part of the legal interest will be valued;
 - (ii) Where the entity is a tenant of real estate, information about any improvements made by the entity and whether these improvements would to be disregarded on renewals, or review of the lease, and whether the entity will need to reinstate the real estate to its original condition at the end of the tenancy;
 - (iii) To understand the degree of control an entity has over real estate or other property⁵ that is owned by more than one entity and how any rights held by the other owning entities might restrict the ability of an entity to sell its interest in the real estate or other property;
 - (iv) To ensure that, in the context of a portfolio of real estate, any grouping of those assets is appropriate;
 - (v) Information about the purpose of holding the asset or liability – for financial capacity or operational capacity – as the purpose may influence the valuation specialist in the selection of a valuation method (a measurement basis or technique).

⁵ Other property is/are asset(s) or liability(ies) other than real estate as defined above.

- (c) Assumptions and any special assumptions. International or national standards applicable to the type of valuation may differentiate between assumptions that are consistent, or could be consistent, with the known facts at the date of the valuation, and special assumptions where the assumptions used in the valuation differ from the known facts. When applicable, the entity and the valuation specialist will need to agree what assumptions should be used in the valuation, taking into account the attributes of the measurement basis; any assumptions should be included in the valuation report.
- (d) The valuation date. The entity will need to inform the valuation specialist of the specific valuation date required.
- (e) The reporting currency. The entity must inform the valuation specialist of the currency in which the valuation of the asset or liability will be expressed in the financial statements. This is particularly important where the asset(s) or liability(ies) being valued are spread across more than one jurisdiction or where cash flows associated with the asset(s) or liability(ies) are expressed in more than one currency. A typical example is the operation of overseas diplomatic activities.
- (f) Limitations on the work of the valuation specialist. A valuation specialist will follow the appropriate international or national standards applicable to the type of valuation being undertaken. The methodology used by the valuation specialist might include any of the following:
 - (i) Physical inspections of the asset(s) or liability(ies) (particularly if the valuation specialist is undertaking a valuation of the specific asset(s) or liability(ies) for the first time).
 - (ii) Enquiries (both internal and external to the entity).
 - (iii) Analysis of the information provided by the entity or through enquiries, or from the results of any physical inspections.

The entity must inform the valuation specialist of any limitations or restrictions that will be imposed on the valuation assignment because these may affect the results of the valuation and will need to be recorded in the valuation report.

C3. What valuation bases does the valuation specialist use?

Valuation specialists will use international or national standards appropriate for the valuation assignment. In general terms, the valuation specialist will use a market approach, income approach, or cost approach to valuation depending on the nature of the asset (or liability), the purpose, measurement objective and measurement basis, intended use and context of the particular assignment, and any jurisdictional statutory or other mandatory requirements.

C4. What sort of assumptions would it be reasonable for an entity to require the valuation specialist to make when carrying out a valuation of real estate?

The nature of any assumptions and special assumptions may be influenced by one or more of the factors listed below; these and any other factors should be discussed with the valuation specialist when the scope of the valuation assignment is being determined.

- (a) Jurisdictional requirements. For example, where real estate assets that are revalued under the cost approach (often referred to as the depreciated replacement cost valuation method), a jurisdiction might require the entity to instruct the valuation specialist to assume that a proposed building or other specialized asset had actually been completed on the

valuation date as an 'instant build' or 'single phase development' (that is, no assumptions are required about the length of time it might take to build a replacement building). This would be a 'special assumption'.

- (b) Service delivery constraints. For example, if an entity has determined that, in order to meet its service delivery objectives, the service has to be delivered from a specific location, then the entity should instruct the valuation specialist to value that real estate asset in that location. This would be a 'special assumption'.
- (c) Service delivery requirements. For example, experienced demographic changes, or demographic changes reasonably expected over the remaining life of the asset, might indicate a change in demand for the service. This in turn might lead to a change in assumption about the ongoing use of the asset or to a change in the specifications required for an efficient and effective replacement of the asset. This might be an 'assumption' or a 'special assumption' depending on the circumstances.
- (d) Functionality. For example, a building might have a conventional, basic design that is superficially similar to other buildings that are regularly bought and sold in the market, but on closer inspection have specialized features designed to meet the requirements of the actual occupier. Examples of specialized features include the addition of security/safety enhancements to protect staff from physical attack in office buildings used for the delivery of services directly to the public; stand-off land around embassies to protect the premises (and staff) from terrorist attack; or other adaptations to a building to enhance efficiency and effectiveness in delivering services. An entity will need to discuss whether any of the specialized features would lead to a 'special assumption' about the measurement basis and technique to be applied in the valuation.
- (e) Standard models. For example, the construction industry will generally have standard design lives for different types of real estate (residential, commercial or industrial); engineers will take a similar approach to certain types of built structures such as bridges or dams. In some cases, there may also be standard costings associated with certain types of other property assets and, unless instructed otherwise, the valuation specialist might use these standard model assumptions in preparing the valuation.

C5. What is meant by a 'modern equivalent asset'?

The concept of a modern equivalent asset is applied by a valuation specialist when valuing real estate under the cost approach (the depreciated replacement cost (DRC) valuation method in some international or national valuation standards).

The DRC method is based on the economic theory of substitution. Like the other forms of valuation, it involves comparing the asset being valued with another. However, DRC is normally used in situations where there is no directly comparable alternative. The comparison therefore has to be made with a hypothetical substitute, also described as the modern equivalent asset (MEA). The underlying theory is that the potential buyer in an exchange transaction would not pay any more to acquire the asset being valued than the cost of acquiring an equivalent new one. The technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

In order to assess the price that the potential buyer would bid for the actual asset, valuation depreciation adjustments have to be made to the gross replacement cost of the MEA to reflect the

differences between it and the modern equivalent. These differences can reflect obsolescence factors such as the physical condition, the remaining economic life, the comparative running costs and the comparative efficiency and functionality of the actual asset. Land required for the MEA will be separately assessed.

An MEA is one that provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques.

Under the cost approach, the valuation specialist will reflect all appropriate costs in the replacement cost of the asset; these will include the value of the land, infrastructure, design fees, finance costs (where appropriate) and developer profit that would be incurred by a participant in creating an equivalent asset.

In order to ensure comparability, the entity should instruct the valuation specialist to assume that the land on which an MEA would be constructed is ready for development to the same extent that an alternative site would be ready for development. That is, any site clearance costs to make the existing site ready for development would be ignored.

If the jurisdiction does not normally capitalize borrowing costs under IPSAS 5, *Borrowing Costs*, the entity should instruct the valuation expert to disregard any financing costs.

The cost of the MEA needs to be adjusted to reflect the condition, functionality and any other factors of obsolescence of the existing asset. The valuation specialist will consider, in consultation with the entity:

- (a) Physical obsolescence. The valuation specialist considers the existing asset and adjusts for a loss of utility arising from its age, condition and probable costs of routine servicing and repairs over the remaining useful life of the asset. Any future capital expenditure on significant refurbishment or replacement of components of the asset (such as, for example, new lifts) would not be considered as probable costs as part of the assignment.
- (b) Functional obsolescence. The valuation specialist will assess the suitability of the existing asset for its current use by comparing its functionality against the functionality of the modern equivalent asset in terms of design, specification and technology. Examples of such factors are:
 - (i) Compatibility of plant and services within the asset or group of assets (this might be of particular importance, for example, where the asset is a connected series of buildings such as a hospital or school that has developed over time by adding new buildings to existing buildings);
 - (ii) Inefficient use or under-use of part or all of plant and machinery;
 - (iii) Poor layout of a building, leading to inefficient use; or
 - (iv) Outdated technology.
- (c) Economic (or external) obsolescence. The valuation specialist assesses external factors, such as the characteristics of the area, national and local planning policies, externally imposed restrictions, and changes in demand for the services provided by the asset.

C6. Do I have to use a valuation expert external to my entity?

You do not have to use a specialist from another organization. Where an entity has the relevant, suitably qualified (that is, a member of an appropriate professional body) expertise available in-house, that specialist can be used to provide a valuation. However, the entity's management and the auditor will need to be satisfied that the use of an in-house valuation specialist provides the level of independence required under international and national valuation standards.

Whatever the source of the expertise, the name, qualifications and employing organization of the valuation specialist must be provided in the notes to the financial statements. This disclosure might be in the note on accounting policies or in the notes accompanying the detailed asset disclosures.

C7. What can I expect from a valuation specialist's report?

International and national valuation standards require valuation specialists to include certain information in their reports. This will apply regardless of whether the valuation is carried out in-house or externally.

The information in a report will depend partly on what the entity and the valuation specialist agreed prior to the assignment, partly on the nature of the asset(s) or liability(ies) being valued, and partly on the standards framework used by the valuation specialist.

The information in the report will include, but will not necessarily be limited to:

- (a) The name, qualifications, employing organization and any other relevant details of the valuation specialist.
- (b) The name of the entity that commissioned the valuation and the name(s) of any other intended users of the report.
- (c) The purpose of the valuation.
- (d) The asset(s) or liability(ies) valued. For real estate assets, the report might include maps and plans depending on jurisdictional requirements, as well as the type of tenure (freehold or leasehold and, in the case of leasehold, details of the financial terms and of the responsibilities for repairs etc. under the lease).
- (e) The valuation base(s) adopted.
- (f) The valuation date and the date of the valuation report.
- (g) A discussion of the approach the valuation specialist took in undertaking the assignment – for example, details of any physical inspections, interviews, review of documents, constraints placed on the assignment, etc.).
- (h) Assumptions and special assumptions.
- (i) Confirmation that the valuation has been undertaken in accordance with the relevant international or national valuation standards.
- (j) The valuation amount(s) and the reasoning behind arriving at those amounts, with reference to the bases used. The report will provide separate valuation amounts for land and buildings on that land. It is likely that the valuation report will include separate valuation amounts for individual components of an asset where material in terms of the amounts or significant in terms of the asset itself. The report will include valuation amounts in both functional and reporting currencies (as appropriate).

- (k) A discussion of any material uncertainties in the valuation amount(s) where this is necessary for a proper understanding of the valuation amount(s).
- (l) For certain liabilities, the probability of the timing and amount of any payments to settle claims.

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**International Public
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Standards Board®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org