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IPSAS®

Conceptual Framework Update

*Chapter 7, Measurement of
Assets and Liabilities in
Financial Statements*

IPSASB

International Public
Sector Accounting
Standards Board®

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

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In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (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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CHAPTER 7, MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

CONTENTS

| | Paragraph |
|--|-----------|
| Introduction..... | 7.1 |
| The Objective of Measurement | 7.2–7.24 |
| Initial Measurement | 7.5–7.7 |
| Subsequent Measurement | 7.8–7.14 |
| The Selection of Measurement Models and Measurement Bases | 7.15–19 |
| Entity-Specific and Non-Entity-Specific Measures | 7.20 |
| Entry and Exit Values | 7.21–7.23 |
| Level of Aggregation or Disaggregation for Measurement | 7.24 |
| Measurement Bases for Assets | 7.25–7.62 |
| Historical Cost | 7.26–7.34 |
| Measurement Bases for Assets under the Current Value Model | 7.35–7.36 |
| Current Operational Value | 7.37–7.44 |
| Fair Value | 7.45–7.56 |
| Value in Use | 7.57–7.62 |
| Measurement Bases for Liabilities | 7.63 |
| Historical Cost | 7.64–7.67 |
| Cost of Fulfillment | 7.68–7.73 |
| Fair Value | 7.74–7.75 |
| Basis for Conclusions | |

Introduction

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

The Objective of Measurement

- 7.2 The objective of measurement is:

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

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

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

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

Initial Measurement

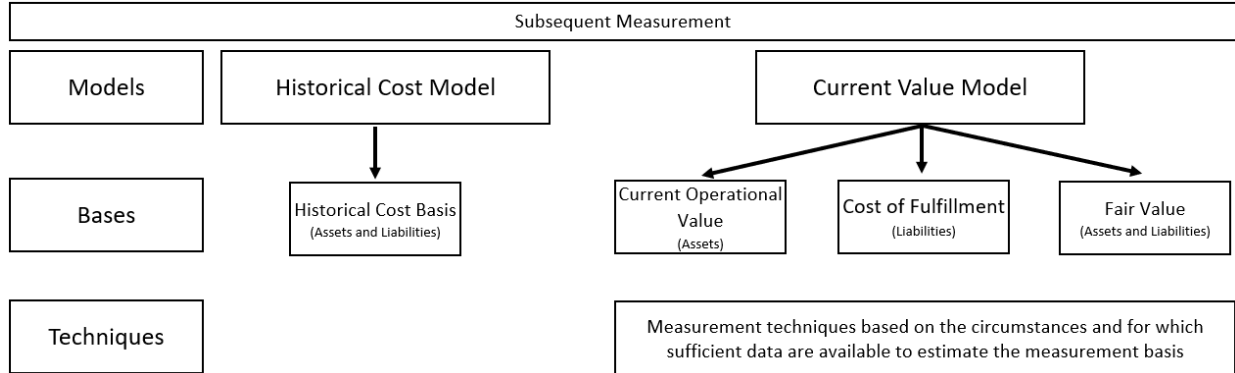
- 7.5 Initial measurement for an asset is at transaction price plus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration given to acquire, construct or develop an asset. Transaction costs for assets are incremental costs that are directly attributable to the acquisition, construction, or development, of an asset and would not have been incurred if the entity had not acquired, constructed, or developed the asset. Transaction price plus transaction costs is the historical cost for an asset.
- 7.6 Initial measurement for a liability is at transaction price minus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration received to assume an obligation. Transaction costs for liabilities are incremental costs that are directly attributable to the incurrence of a liability and would not have been incurred if the entity had not incurred the liability. Transaction price minus transaction costs is the historical cost for a liability,
- 7.7 For both assets and liabilities, where there are no transaction price data available or if the transaction price does not faithfully present relevant information about the asset and liability of the entity' in a manner that is useful in holding the entity to account, and for decision-making purposes, a deemed cost is used.

Subsequent Measurement

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

- Measurement models;
- Measurement bases; and
- Measurement techniques.

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



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

7.10 Under the historical cost model, assets and liabilities are measured at historically-based amounts. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous¹ for liabilities.

7.11 Under the current value model, assets and liabilities are measured using information updated to reflect price changes to the measurement date.

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

7.13 Subsequent measurement may be either on the historical cost measurement basis or on one of the measurement bases under the current value model (see paragraph 7.15).

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

¹ An obligation is onerous when the unavoidable costs of meeting the obligation under a binding arrangement exceed the economic benefits or service potential expected to be received under the binding arrangement.

The Selection of Measurement Models and Measurement Bases

- 7.15 It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a conceptual level for all circumstances. Therefore, the Conceptual Framework does not propose a single measurement model or measurement basis (or combination of bases) for all transactions, events, and conditions. It provides guidance on the selection of a measurement model and a measurement basis for assets and liabilities from those bases most commonly used in order to meet the measurement objective. It may be necessary to select measurement bases from different measurement models in order to meet the measurement objective.
- 7.16 The following measurement bases for assets are identified and discussed in terms of the information they provide about (a) the cost of services delivered by an entity, (b) the operational capacity and the financial capacity of an entity; and (c) the extent to which they provide information that meets the qualitative characteristics while taking into account the constraints on information in financial reports:
- Historical cost;
 - Current operational value; and
 - Fair value.
- 7.17 Value in use is used solely for the impairment of assets, and therefore is discussed separately in paragraphs 7.57-7.62.
- 7.18 The following measurement bases for liabilities are identified and discussed:
- Historical cost;
 - Cost of fulfillment; and
 - Fair value.
- 7.19 The next two sub-sections discuss classifying measurement bases as entity or non-entity specific and entry-based or exit-based.

Entity-Specific and Non-Entity-Specific Measures

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

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

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

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

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

Entry and Exit Values

- 7.21 Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. Current operational value and historical cost are entity specific measures for assets and are entry values. Fair value is a market-based, non-entity specific measure, and is an exit value.
- 7.22 For liabilities, entry values relate to the transaction or event under which an obligation is incurred. Exit values reflect the amount required to fulfill or transfer an obligation. For example, historical cost is an entity specific measure for liabilities and is an entry value, Cost of fulfillment is an entity specific measure and fair value is a market- based, non-entity specific measure; both measures are exit values.
- 7.23 Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases normally include transaction costs on the acquisition, construction, or development of an asset and on the incurrence of a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or fulfillment or transfer of a liability.

Level of Aggregation or Disaggregation for Measurement

- 7.24 In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics, it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate, consideration is given to:
- Guidance on unit of account in Chapter 5;
 - The materiality of aggregation or disaggregation; and

- The costs of aggregation or disaggregation compared with the benefits in terms of the extent to which the aggregation or disaggregation meets the objectives of financial reporting.

Measurement Bases for Assets

7.25 This section discusses the following measurement bases for assets:

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

Historical Cost

7.26 Historical cost for an asset is:

The consideration given to acquire, construct, or develop an asset at the time of its acquisition, construction, or development plus transaction costs.

7.27 Consideration is the cash or cash equivalents, or the value of other resources given. Historical cost is an entity-specific measurement basis reflecting the costs incurred in acquiring, constructing, or developing an asset. Subsequent to initial measurement, the historical cost for certain assets may be allocated as an expense to reporting periods in the form of depreciation or amortization. Depreciation and amortization represent the consumption of the service potential or ability to generate economic benefits provided by such assets over their useful lives. Consistent with the historical cost model, following initial measurement, the carrying amount of an asset is not changed to reflect changes in prices, except where related to impairment (see below paragraph 7.28).

7.28 Under the historical cost model, the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset has diminished due to changes in economic or other conditions, which is distinct from the consumption of an asset. This involves an assessment of the recoverable amount of an asset. Depreciation, amortization, and impairment may also be relevant to measurement bases under the current value model (see paragraph 7.35). Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements or other events, such as the accrual of interest on a financial asset.

Cost of Services

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

Operational Capacity

7.30 If an asset has been acquired, constructed, or developed in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their

acquisition cost. At the time an asset is acquired, constructed, or developed, it can be assumed that the value to the entity of its service potential is at least equal to the cost of its acquisition, construction, or development. When depreciation or amortization is recognized, it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services are at least equal to the amount at which they are stated. Where an asset has been acquired, constructed, or developed in a non-exchange transaction, the transaction price will not provide information on operational capacity that meets the qualitative characteristics while taking into account the constraints on information in financial reports (also see paragraph 7.7).

Financial Capacity

7.31 The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost, less depreciation or amortization, and any accumulated impairment losses can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be derived from use of the asset and received on sale of an asset and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current values.

Application of the Qualitative Characteristics

7.32 Paragraphs 7.29-7.31 explain the areas where historical cost provides relevant information with confirmatory or predictive value. Application of historical cost is often straightforward because transaction information is usually readily available. As a result, amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that is, the cost to acquire, construct, or develop an asset based on actual transactions. As application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are generally verifiable and understandable, and can be prepared on a timely basis.

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

7.34 In certain circumstances, the application of historical cost necessitates the use of allocations—for example where:

- Several assets are acquired in a single transaction;
- Assets are constructed or developed by the entity itself and overheads and other costs have to be attributed; and
- The use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held.

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

Measurement Bases for Assets under the Current Value Model

- 7.35 Measurements under the current value model reflect the economic environment prevailing at the reporting date. Depreciation, amortization, and impairment, which are discussed in the context of the historical cost measurement model in paragraphs 7.27 and 7.28, are also relevant to current value measurement bases in certain circumstances. Additions and enhancements may affect measurements under current operational value and fair value.
- 7.36 Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity and selects the current operational value measurement basis, or the fair value measurement basis based on that analysis. In making such a judgment an entity has regard to the appropriate unit of account. Guidance on unit of account is provided in Chapter 5.

Current Operational Value

7.37 Current operational value is:

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

- 7.38 Current operational value presents an entity-specific measurement of an existing asset held for its operational capacity. Current operational value reflects:
- The amount the entity would pay for the remaining service potential of the asset in the least costly manner.
 - The remaining service potential of the asset taking into account the current condition of the asset.
 - The asset’s existing use and location.
- 7.39 An asset supports an entity delivering services in its existing use. ‘Existing use’ is the way an existing asset is used, rather than an alternative use, and generally reflects the policy objectives of the entity operating the asset. Current operational value therefore assumes that an asset will continue to be used for service delivery rather than being sold.

Cost of Services

7.40 The cost of services is reported in current terms when based on current operational value. Thus, the amount of assets consumed is related to the value of the assets at the time they are consumed—and not, as with historical cost, at the time they were acquired, constructed, or developed. This provides a basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period—which are generally transactions of the current period and measured in current prices—and for assessing whether resources have been used economically and efficiently. It may also provide a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition, construction, or development dates, and for assessing the cost of providing services in the future and future resource needs. This is because future costs are more likely to resemble current costs than those incurred in the past when prices were different.

Operational Capacity

7.41 As indicated in paragraph 7.40, current operational value provides a measure of the resources available to provide services in future periods based on current policy, as it is focused on the current value of assets and their remaining service potential to the entity.

Financial Capacity

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

Application of the Qualitative Characteristics

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

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

Fair Value

7.45 Fair value for an asset is:

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

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

7.47 In principle, fair value measurements provide useful information because they fairly reflect the value of the asset to the entity. In an orderly market (see paragraph 7.49), the asset cannot be valued at less than fair value, as, disregarding transaction costs, the entity can obtain at least fair value by selling the asset. The asset cannot be valued at more than fair value, as the entity can obtain the same ability to generate economic benefits by purchasing the same or a similar asset in the market.

7.48 The usefulness of fair value may be more questionable when the assumption that markets are orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired. Although the purchase of an asset provides evidence that the value of the asset to the entity is at least equal to its purchase price at that time, operational factors may mean that the value to the entity may be greater. Hence, fair value may not reflect the

value to the entity of the asset, represented by its operational capacity. Therefore, fair value may not be useful for operational assets that an entity intends to continue to use for service delivery.

Orderly Markets

7.49 Orderly markets have the following characteristics:

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

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

Fair Value where Markets Cannot be Assumed to be Orderly

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

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

Cost of Services

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

Operational Capacity

7.53 The usefulness of information on the fair value of assets held to provide services is limited. If fair value is significantly lower than historical cost, fair value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity. Fair value is also likely to be less relevant than current operational value, as the highest and best financial use principle that underpins fair value is inappropriate for assets primarily held for operational capacity.

Financial Capacity

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

Application of the Qualitative Characteristics

7.55 Values determined in orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics—that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. As such information can be available quickly, it is also likely to be timely.

7.56 The extent to which fair value measurements meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, fair value is only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity.

Value in Use

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

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

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

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

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

7.62 Paragraph 7.36 discusses the situation where an asset is used for service provision and also generates economic benefits, noting that an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity, and selects the current operational value measurement basis or the fair value measurement basis accordingly. This factor and the complexity and subjectivity discussed above mean that value in use in both a cash-generating and non-cash-generating context is likely to be applicable only to accounting for losses or reversals of losses related to impairment.

Measurement Bases for Liabilities

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

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

Historical Cost

7.64 Historical cost for a liability is:

The consideration received to assume an obligation minus transaction costs, at the time the liability is incurred.

7.65 Consideration is the cash or cash equivalents, or the value of other consideration given. Under the historical cost model initial measures are adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of a discount or amortization of a premium.

7.66 Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant—the amount of the future payment is discounted so that, at the time a liability is initially measured, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.

7.67 Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

Cost of Fulfillment

7.68 Cost of fulfillment is:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner at the measurement date.

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

7.70 Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly way of fulfilling the obligation.

7.71 Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of fulfillment is based on the cost of employing a contractor, the amount will implicitly include the profit

required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.

- 7.72 Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date.
- 7.73 Cost of fulfillment is generally relevant for measuring liabilities except in circumstances where the entity can obtain release from an obligation at an amount lower than the cost of fulfillment.

Fair Value

- 7.74 Fair value for a liability is:

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

- 7.75 Fair value may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear, the case for fair value is weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions because it is unlikely that there will be an orderly market for such liabilities.

Basis for Conclusions

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

Background to the Development of the Conceptual Framework and its Updating

- BC7.1 *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (The Conceptual Framework) was approved in September 2014. The development of the Conceptual Framework included a number of consultation papers and exposure drafts. On approval the IPSASB did not commit to a review of the Conceptual Framework within a specified timeframe. Although views were expressed that the Conceptual Framework should be a “living document” subject to regular updates, there was a broader view that it should be allowed to “bed down” for a significant period. Over-frequent amendments to the Conceptual Framework could also undermine the accountability that it imposes on the IPSASB in explaining approaches developed at the standards level.
- BC7.2 In 2018, after having applied the 2014 Conceptual Framework in standards development for over three years, the IPSASB considered that a limited review of certain aspects of the Conceptual Framework would be appropriate. The IPSASB’s project on Measurement was a principal factor. In addition, the International Accounting Standards Board (IASB) was about to issue its finalized Conceptual Framework with post-2014 developments on measurement of potential relevance to the public sector. The IPSASB therefore proposed a Limited-scope Update project in the consultation on its Strategy and Work Plan in 2018. The proposed project received significant support from respondents for the reasons outlined by the IPSASB. The IPSASB initiated the project in March 2020. Exposure Draft (ED) 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, was issued in April 2021. The IPSASB considered the points raised by respondents to the exposure draft in finalizing the revised Chapter 7. The revised Chapter 7 became applicable when approved.
- BC7.3 The IPSASB decided that the initial focus of the 2014 Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* in 2010 (the 2010 Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it. The Limited-scope Update project initiated in 2020 did not reopen this issue and continued to focus on the financial statements.

The Objective of Measurement

- BC7.4 In developing the 2014 Conceptual Framework the IPSASB considered whether a specific measurement objective should be developed. The IPSASB initially took the view that a separate measurement objective was unnecessary because a measurement objective might compete with, rather than complement, the objectives of financial reporting and the qualitative characteristics of financial reporting. Accordingly, the 2013 Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements* (the 2013 Exposure Draft), proposed factors relevant to the selection of a measurement basis consistent with the objectives of financial reporting and the qualitative characteristics but did not include a measurement objective.

- BC7.5 Consistent with this approach the 2013 Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements—in particular, it would allow the amounts of different assets and liabilities to be aggregated to provide meaningful totals. However, the IPSASB is of the view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics.
- BC7.6 The 2013 Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:
- To select those measurement attributes that most fairly reflect the financial capacity, operational capacity, and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.*
- BC7.7 Many respondents, while generally in favor of the approach in the 2013 Exposure Draft, supported the Alternative View. The IPSASB also acknowledged the view that the Conceptual Framework’s approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement model or measurement basis underpinned by an ideal concept of capital². The IPSASB accepts that a concept of capital related to operating capability is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.25–BC7.27, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.
- BC7.8 Subsequently, the IPSASB was persuaded by the views of those who argued that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the IPSASB noted that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to operational capacity and financial capacity. The IPSASB concluded that linking a measurement objective to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of the measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard setting in the public sector.

² Such concepts of capital include invested money capital, current cash equivalents and physical capital.

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

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

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

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

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

Initial Measurement

BC7.12 Some respondents to ED 76 expressed a view that the IPSASB had not distinguished measurement at recognition (initial measurement) from measurement subsequent to recognition (subsequent measurement). The IPSASB therefore decided to insert a sub-section dealing with initial measurement. This clarifies that initial measurement is at transaction price unless no transaction price data are available or there is another more representationally faithful measurement basis. In such a case, a deemed cost is used on which requirements and guidance are provided at the standards level.

BC7.13 Historical cost is the transaction price plus transaction costs for an asset or minus transaction costs for a liability. Transaction costs can be significant, and their omission might impair the usefulness of the financial statements. The IPSASB considered the correct approach for transaction costs for a liability. The IPSASB agreed that deducting transaction costs from the transaction price is appropriate as it reflects the economics of the liability. For example, an entity borrows 1,000,000 CU of which transaction costs amount to 100,000 CU. The historical cost is 900,000 CU. This is because immediately after receiving the 1,000,000 CU, the transaction costs of 100,000 CU are repaid to the counterparty, leaving the entity with 900,000 CU. The transaction costs of 100,000 CU are included in the interest expense over the term of the instrument as the carrying amount of 900,000 CU is accreted to 1,000,000 CU on the settlement date.

The Subsequent Measurement Framework

BC7.14 Chapter 7 of the 2014 Conceptual Framework did not explicitly identify measurement levels. The IASB’s 2018 Conceptual Framework for Financial Reporting distinguishes three measurement levels:

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

BC7.15 The IPSASB considered that distinguishing different levels, and building on the IASB's approach, would provide an analytical framework to inform the development of measurement requirements and guidance. As the distinction between measures and measurement bases might be ambiguous, the following three levels were adopted for ED 76 and ED 77, *Measurement*:

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

BC7.16 In identifying measurement models and measurement bases, the IPSASB reaffirmed the view in the 2014 Conceptual Framework that there is not a single measurement basis that best meets the measurement objective. Consistent with this view, the IPSASB concluded there is not one measurement model that best meets the measurement objective. Consequently, the IPSASB identified the historical cost model as one of the two models. and retained historical cost as a measurement basis for both assets and liabilities.

BC7.17 Some respondents to ED 76 challenged the term "Measurement Hierarchy" because hierarchy implies a prioritization of measurement models, measurement bases and measurement techniques. It was not the IPSASB's intention to imply such a prioritization. The IPSASB therefore decided to rename the "Measurement Hierarchy" as the "Subsequent Measurement Framework". This change also emphasized that the Conceptual Framework refers to subsequent measurement rather than initial measurement.

BC7.18 The IPSASB considered whether to identify and discuss measurement techniques in the Conceptual Framework. The IPSASB concluded that a detailed analysis of measurement techniques is not appropriate for the Conceptual Framework and that guidance should be provided at the standards level. Therefore, in its discussion of the Subsequent Measurement Framework, the Conceptual Framework explains that measurement techniques are needed to operationalize current value measurement bases. However, the Conceptual Framework does not identify or analyze specific techniques. Guidance on measurement techniques is provided at the standards level.

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

BC7.19 The 2014 Conceptual Framework classified measurement bases as: (i) entity-specific or non-entity-specific, (ii) whether they provide information that is observable in an orderly market; and (iii) whether they provide entry or exit values. The IPSASB considered that the distinction between entity-specific and non-entity-specific measurement bases and the relationship with the measurement objective and qualitative characteristics is meaningful. It indicates whether

measurement bases reflect the expectations of market participants and impacts the selection of a measurement basis.

- BC7.20 The IPSASB decided that the characteristic of observability in a market is relevant to the selection of a measurement technique once a measurement basis has been selected, rather than directly to the measurement basis itself. Consistent with the conclusion in paragraph BC7.18 that detailed guidance on measurement techniques is more appropriately addressed at the standards level, the IPSASB decided not to retain a discussion of observability in a market in the Conceptual Framework, but to refer to the “availability of observable data” as an example of a factor in the selection of a measurement technique.
- BC7.21 For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. For liabilities, entry values usually reflect the amount at which a liability is incurred and exit values reflect the amount required to fulfill or transfer a liability. In rarer cases, entry values reflect the amount at which a liability is assumed and exit values reflect the amount to release an entity from an obligation.
- BC7.22 IPSASB is of the view that the key factor in the selection of a current value measurement basis is the measurement objective; in particular, whether an asset is primarily held for its operational or financial capacity and the characteristics of a liability. The IPSASB concluded that the distinction between entry and exit values is useful in deciding whether a measure includes transaction costs, and, if so, whether on the acquisition or sale of an asset or incurrence or settlement of a liability. The Conceptual Framework therefore includes a high-level discussion on entry and exit values but does not provide a tabular classification of specific measurement bases as entry or exit.

Approach to Identifying Measurement Bases Addressed in the Conceptual Framework

- BC7.23 In revising Chapter 7 the IPSASB identified two approaches to the identification of, and guidance on, measurement bases. The first approach would provide guidance on a large number of measurement bases regardless of whether they are used in current standards-level literature or whether it is likely that they will be used in the development of future standards. The second approach would focus on the most commonly used measurement bases.
- BC7.24 In ED 76 the IPSASB decided to adopt the second approach as it considered that this approach is more helpful for the IPSASB in its standards development and for preparers of financial statements in determining accounting policies for transactions and events for which there are no standards-level requirements and guidance. The IPSASB reconsidered this approach in the light of the views by some respondents to ED 76 who advocated the broader approach. The IPSASB acknowledged the case for providing guidance on a more comprehensive range of measurement bases but concluded that the benefits of a more concise approach outweighed any disadvantages. In particular the IPSASB concluded that the inclusion of measurement bases that might be rarely, and in some cases, never used at the standards level could be confusing to users. The IPSASB also acknowledged that the fact that a measurement basis is not discussed in Chapter 7 does not preclude its adoption at the standards level. In such cases the reason for adoption of such a measurement basis will be explained in the Basis for Conclusions of the standard.

Measurement Bases for Assets*Historical Cost*

- BC7.25 Historical cost is a measurement basis applied in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft that preceded the 2014 version of the Conceptual Framework advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost information. They also noted that, because historical cost is widely adopted in combination with other measurement bases, its continued use avoids the implementation costs that would arise if a future revision of a current standard that requires or permits historical cost were to require the use of a different measurement basis.
- BC7.26 Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.
- BC7.27 The IPSASB agreed that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity and accepted that users are interested in the cost of services based on actual transactions. Historical cost provides information on how much services actually cost in the reporting period, rather than how much they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.
- BC7.28 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results with the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that, where this is the case, historical cost enhances comparison against budget.
- BC7.29 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both accountability and decision-making purposes. As historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.
- BC7.30 In finalizing the revised Chapter 7 the IPSASB reviewed the wording of the definition of historical cost. The IPSASB decided that the definition could be simplified and clarified by:
- (a) Adding “construct” to “acquire and develop” and “construction” to “acquisition and development”, as construction is a way of creating an asset;
 - (b) Removing the phrase “which is the cash or cash equivalents, or other consideration given” because it is unnecessary; and
 - (c) Including “transaction costs” as a component of the definition and providing a description of “transaction costs”. This is because the IPSASB was persuaded by the argument that,

for many transactions, transaction costs are a significant component of the amount of initial measurement.

Current Operational Value

BC7.31 The 2014 Conceptual Framework included replacement cost as a current value measurement basis, envisaging that it would be appropriate for specialized assets. As noted in paragraph BC7.39 the IPSASB adopted the IASB's exit-based definition of fair value in the updated Conceptual Framework. The cost approach, a measurement technique for fair value in IFRS 13, *Fair Value Measurement*, has some similarities to replacement cost. These inter-related factors necessitated the development of a measurement basis that can be applied to assets held primarily for operational capacity.

BC7.32 The IASB's 2018 Conceptual Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB considered whether current cost should be adopted as a current value measurement basis for assets that are primarily held for operational capacity (see paragraph BC7.100 for a discussion of current cost for liabilities). The IPSASB formed a view that a measurement basis similar to current cost is relevant in a public sector context, potentially for specialized and non-specialized assets held for operational capacity. However, rather than the cost of an equivalent asset in the IASB's definition of current cost, the IPSASB formed a view such a measurement basis should reflect an asset's value in its existing use. The IPSASB decided to use the term 'current operational value' for this measurement basis.

BC7.33 Current operational value was developed for assets primarily held for their operational capacity. For non-specialized assets, it can be supported by market-based measurement techniques with similarities to market value. For more specialized assets, measurement techniques to determine the value of the asset may be applied. ED 76 therefore proposed current operational value as a measurement basis for assets primarily held for operational capacity with the following definition:

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

BC7.34 ED 76 also included an alternative view (AV). The main points of the AV were that:

- The definition was unclear mainly because of the ambiguity of the word 'value';
- The lack of clarity in the definition risked not achieving the qualitative characteristics of financial reporting; and
- The definition should have focused on the cost of replacing an asset used for its service potential.

BC7.35 The AV proposed the following definition:

The cost to replace the service potential embodied in an asset at the measurement date.

BC7.36 Most respondents to ED 76 supported the view that fair value is inappropriate for assets that are primarily held for their operational capacity and therefore that a public sector specific current value for assets should be developed. Some respondents shared the view of the AV that the proposed definition was unclear. Other respondents considered that the rationale for current operational value should be clearer.

BC7.37 The IPSASB responded to these points by adopting a definition which focuses on both an asset and the service potential of an asset:

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

BC7.38 Guidance clarifies the assumptions that underpin current operational value. These assumptions are stated in paragraph 7.38. They indicate that measurement under current operational value estimates the amount an entity would pay for the remaining service potential of an asset in the least costly manner. Current operational value is based on the asset in its existing use and in its existing location. .

Fair Value

BC7.39 Shortly before the 2014 Conceptual Framework was finalized the IASB approved IFRS 13. IFRS 13 adopted an explicitly exit-based definition of fair value. This differed from the definition of fair value in the IPSASB's literature, which was aligned with the pre-IFRS 13 definition of fair value. The IPSASB decided to rename its fair value definition as "market value". The aim was to avoid two global standard setters using the term "fair value" with different definitions in future standards development. Unlike the revised IASB definition of fair value, market value could be appropriate for non-specialized physical assets held for operational capacity as well as assets held for financial capacity. Since 2014, the IPSASB's standards-level work, especially that on financial instruments, had led the IPSASB to conclude that a non-entity-specific current value measurement basis is necessary for both assets and liabilities. This view was reflected in IPSAS 41, *Financial Instruments*, and in the illustrative exposure draft in Consultation Paper, *Measurement*.

BC7.40 Therefore, the updated measurement chapter therefore includes fair value for both assets and liabilities, based on the IASB's exit-based definition of fair value. Because of its exit-based nature and the assumptions that underpin it, the IPSASB concluded that fair value is inappropriate for assets primarily held for their operational capacity. The IPSASB is aware that fair value has been adopted in some jurisdictions as a current value measurement for such assets and has been adapted for these assets by, for example, reinterpreting the "highest and best use" principle. The IPSASB concluded that such adaptations would mean losing consistency with the IASB's guidance.

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

BC7.41 The following measurement bases and approaches for assets in the 2014 Conceptual Framework have not been included in the updated version:

- Market value;
- Replacement cost; and
- Net selling price.

BC7.42 Value in use was included as a measurement basis in the 2014 Conceptual Framework. It has not been included as a measurement basis in the updated Conceptual Framework, which includes a general discussion of value in use.

BC7.43 The following measurement bases were considered for inclusion in the 2014 Conceptual Framework but rejected:

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

BC7.44 The IPSASB did not further consider these measurement bases in the Limited-scope Update project to revise Chapter 7.

BC7.45 In developing the 2014 Conceptual Framework the IPSASB also considered and rejected the deprival value model, which is an approach to select a measurement basis, rather than a measurement basis in its own right.

Market Value

BC7.46 Market value for assets was defined in the 2014 Conceptual Framework as:

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

BC7.47 In light of the decision to include fair value and current operational value as measurement bases under the current value model, the IPSASB considered whether it was necessary to retain market value as a measurement basis for assets. The IPSASB considered that fair value is the current value measurement basis that best meets the measurement objective where assets are held for financial capacity and for determining the amount of a liability that can be transferred to a third party under current market conditions. Current operational value is the current value measurement basis that best meets the measurement objective where assets are held for operational capacity, because it does not include a "highest and best use" market-based assumption, and, as an entity-specific measurement basis, it does not reflect the expectations of market participants. The IPSASB therefore concluded that it was not necessary to retain market value as a measurement basis. Market-based techniques can be used to operationalize the fair value and current operational value measurement bases. Guidance on these techniques is provided at the standards level.

BC7.48 The large majority of respondents to ED 76 supported the IPSASB's reasons for the non-retention of market value. The IPSASB confirmed that market value should not be included in the revised Chapter 7.

Replacement Cost

BC7.49 Replacement cost was defined in the 2014 Conceptual Framework, as:

The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.

BC7.50 In light of the decision to include current operational value as the most appropriate current value measurement basis for operational assets, the IPSASB considered whether it was necessary to retain replacement cost as a measurement basis. The IPSASB considered that the rationale for including replacement cost as a measurement basis in the 2014 Conceptual Framework was convincing, in particular that an appropriate measurement basis for specialized assets should provide information on the cost of the service potential that is attributable to the

asset. As noted above, current operational value is a measurement basis that can be applied to both specialized and non-specialized assets. Measurement techniques can be selected appropriate to the nature of the asset.

- BC7.51 Most respondents to ED 76 supported the non-retention of replacement cost. Those who opposed or expressed reservations about the change considered that it had been insufficiently explained or that current operational value had not been adequately developed in ED 76. Both of these reservations were addressed in the finalized Chapter 7.
- BC7.52 The IPSASB acknowledged these points, which were taken into account in the development and finalization of current operational value (see paragraphs BC 7.31-BC 7.38). There was also a view that fair value is appropriate for non-operational assets. As noted in paragraph BC 7.40 the IPSASB confirmed its view that fair value is inappropriate for assets primarily held for their operational capacity and that there should be a public sector specific current value measurement basis for such assets.
- BC7.53 Some of the respondents who supported the approach proposed in ED 76, explicitly acknowledged the IPSASB's view that replacement cost would duplicate the new measurement basis and its retention would be confusing. At the standards level, the cost approach, which reflects aspects of replacement cost, is also being brought into both current operational value and fair value as a measurement technique at the standards level. The IPSASB therefore confirmed its view that replacement cost should not be included in the updated Chapter 7.

Net Selling Price

- BC7.54 Net selling price is an entity-specific measurement basis that was defined in the 2014 Conceptual Framework as:
- The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.*
- BC7.55 In its project on non-current assets and discontinued operations, the IPSASB considered whether net selling price should be included as an alternative measure to fair value less costs to sell in determining the recoverable amount of assets held for sale where a sale is on negotiated rather than market terms. The IPSASB rejected inclusion of net selling price, largely on accountability grounds, concluding that fair value is more appropriate for the determination of the recoverable amount of an asset, as it generally meets the qualitative characteristics of financial reporting better than net selling price.
- BC7.56 The IPSASB considered the case for an entity-specific, current value measurement basis for assets, as an alternative to fair value where there is not an orderly market, such as a distressed or negotiated sale. In some jurisdictions events such as financial crises and pandemics have increased the likelihood of such sales. Sale prices will be affected by the impact of such events on general market conditions and therefore reflected in fair value measurements. Aside from general price effects, when sale price is estimated at below fair value it is important that the impact of such a decision on an entity's financial position and financial performance is made fully transparent by disclosing the extent of the losses likely to be made on sale. This can be achieved by showing the difference between an asset's fair value and the sale price. The IPSASB therefore concluded that, in light of the limited information provided by net selling price, its retention in the IPSASB Conceptual Framework was unnecessary.
- BC7.57 Following comments from respondents to ED 76, the IPSASB further analyzed the case for and against retention of net selling price. The IPSASB noted that:

- Net selling price is not defined in the IASB's 2018 Conceptual Framework.
- Net realizable value is used in IPSAS 12, *Inventories*. However, despite superficially similar terminology, net realizable value, which is not included in the IASB's 2018 Conceptual Framework, is much closer to the IASB's current definition of fair value than net selling price.

BC7.58 The IPSASB concluded that the case for retention of net selling price is not persuasive and confirmed that it should not be included in a revised Chapter 7.

Value in Use

BC7.59 Value in use was defined in the 2014 Conceptual Framework as:

The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

BC7.60 The IPSASB considered whether to retain value in use as a current value measurement basis for assets in the Conceptual Framework.

BC7.61 The IPSASB noted that the definition of value in use in the 2014 Conceptual Framework was not consistent with that in the IASB's Conceptual Framework, because it is not limited to the cash-generating context and includes a reference to "service potential". Since approval of the Conceptual Framework the IPSASB has placed increased emphasis on the consistent use of terminology and definitions by global standard setters.

BC7.62 The IPSASB acknowledged the importance of value in use in assessments of impairment losses (including reversal of impairment losses or impairment gains). The IPSASB also noted that value in use requires complex and subjective projections of cash flows generated by an asset, or of the service potential provided by an asset. Complexity increases where assets generate cash flows in combination with other assets.

BC7.63 The IPSASB further acknowledged that some assets both generate cash flows and are used in the delivery of services. In such circumstances the IPSASB reaffirmed that, for financial reporting purposes, preparers of financial statements need to make a professional judgment of the primary purpose for which an asset is held. Under the current value model, where assets are primarily held for operational capacity, current operational value is applied; where assets are primarily held for financial capacity fair value is applied. The continued applicability of value in use is therefore likely to be limited to impairment.

BC7.64 In light of the above factors, the IPSASB decided to replace the definition of value in use with a limited discussion in the proposed updated Chapter 7 in ED 76.

BC7.65 Most respondents to ED 76 supported the IPSASB's proposed revised approach. Respondents who opposed the IPSASB's proposal to reduce the number of measurement bases discussed in the Conceptual Framework (see paragraph BC 7.23 and 7.24) advocated retention on the grounds that value in use should be available to the IPSASB and preparers of financial statements for transactions and events apart from impairment. No examples of such circumstances were provided.

BC7.66 Conversely, it was suggested that value in use should not be addressed in the Conceptual Framework because its applicability is limited to impairment and that guidance should be limited to the standards level.

- BC7.67 The IPSASB concluded that, while its wider future application cannot be ruled out, value in use's relevance is likely to be limited to impairment. The IPSASB also concluded that the importance of value in use to impairment justifies the inclusion of guidance in the Conceptual Framework. The IPSASB therefore decided to retain the approach in ED 76.
- BC7.68 Some respondents suggested that the IPSASB should clarify the differences between value in use and current operational value. The IPSASB noted that value in use is an exit value and therefore includes the proceeds of sale as a component of the measure. Current operational value is an entry value and therefore does not include the proceeds of sale. As the public sector entities for which the IPSASB develops standards hold most assets for service delivery this analysis reinforced the IPSASB's view that these assets are likely to be measured at current operational value.

Symbolic Values

- BC7.69 In some jurisdictions, certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.
- BC7.70 The IPSASB acknowledged that such an approach is intended to provide useful information. However, in the development of the 2014 Conceptual Framework, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity, or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, *Elements in Financial Statements*, and Chapter 6, *Recognition in Financial Statements*. The IPSASB did not further consider the issue of symbolic values in the Limited Scope Update project.

Equitable Value and Synergistic Value

- BC7.71 The IPSASB considers that the development of conceptual and standards-level projects evaluates the requirements and guidance in International Valuation Standards (IVS) and Government Finance Statistics. In its Limited Scope Update project, the IPSASB evaluated two concepts in IVS as potential measurement bases in the Conceptual Framework—equitable value and synergistic value.
- BC7.72 IVS defines equitable value as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.
- BC7.73 IVS defines synergistic value as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.
- BC7.74 Equitable value has similarities to net selling price and synergistic value relates to unit of account. The IPSASB considered net selling price in the Limited Scope Update project and decided not to retain this measurement basis (see above paragraphs BC7.54-BC7.58). The IPSASB therefore concluded that including equitable value and synergistic value as specific

measurement bases in the Conceptual Framework was unnecessary. The IPSASB did not further consider equitable value and synergistic value in the Limited Scope Update project.

Deprival Value Model

- BC7.75 The 2011 Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, discussed the deprival value model as a rationale for selecting a current value measurement basis. Some respondents expressed reservations—in particular that the model would be costly and impose a disproportionate burden on preparers of financial statements to have to consider a number of possible measurement bases for each asset that is reported. A number of respondents also considered that it is overly complex. A view was also expressed that the deprival value model unduly exaggerates the qualitative characteristic of relevance and neglects the other qualitative characteristics.
- BC7.76 Although the IPSASB recognized that the deprival value model has been adopted successfully in some jurisdictions, the IPSASB acknowledged such reservations in whole or part. The IPSASB therefore included the deprival value model in the 2013 Conceptual Framework Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements*. That Exposure Draft proposed the deprival value model as an optional method of choosing between replacement cost, net selling price, and value in use where it had been decided to use a current measurement basis, but the appropriate basis could not be identified by reference to the objectives of financial reporting and the qualitative characteristics.
- BC7.77 While a minority of respondents to the 2013 Conceptual Framework Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model's complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model—if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the deprival value model in the Conceptual Framework. The IPSASB did not further consider the deprival value model in the Limited-scope Update project.

Measurement Basis for Liabilities in the Updated Conceptual Framework

Fair Value

- BC7.78 Paragraphs BC 7.39 and BC7.40 discuss the inclusion of fair value for assets in the updated Conceptual Framework. Consistent with the analysis for assets the IPSASB decided that fair value is an appropriate measurement basis for many liabilities depending on their characteristics. The updated measurement chapter therefore includes fair value as a measurement basis for liabilities.

Cost of Fulfillment

- BC7.79 The 2014 Conceptual Framework defined cost of fulfillment as:
- The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.*

- BC7.80 In its 2018 Framework the IASB included fulfillment³ value defined as:
The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.
- BC7.81 In light of this development, the IPSASB considered whether to (a) adopt the term ‘fulfillment value’ rather than cost of fulfillment while retaining the original definition of cost of fulfillment (b) adopt the term ‘fulfillment value’ and the definition in the IASB Framework; or (c) follow another approach.
- BC7.82 A number of respondents to the IPSASB’s 2019 Consultation Paper, *Measurement*, pointed out that fulfillment value reflects a risk premium, whereas cost of fulfillment is silent on risk premia. A risk premium, which is also known as a risk margin or risk adjustment, is the price for bearing the uncertainty inherent in the cash flows. The IPSASB concluded that using the term ‘fulfillment value’ with a definition different to that of the IASB was inappropriate. The IPSASB also decided that the inclusion of a risk premium should be determined at the standards level.
- BC7.83 The IPSASB concluded that the existing definition of cost of fulfillment should be retained in ED 76. The IPSASB acknowledged that the term itself is similar to fulfillment value but concluded that provided it is clear that cost of fulfillment does not imply inclusion of a risk premium the term should be retained with its existing definition rather than adopting a new term such as ‘cost of settlement’.
- BC7.84 The IPSASB also considered whether the definition should retain the assumption that the obligations represented by the liability are fulfilled in the least costly manner. The IPSASB acknowledged that there may be circumstances where, for transparent public policy reasons, liabilities may not be fulfilled in the least costly manner. However, the IPSASB took the view that, from an accountability perspective, the assumption should be retained and concluded that the definition of cost of fulfillment should not be modified. It is possible that there may be cases where a reporting entity decides to fulfill an obligation in a manner that is not the least costly. In such circumstances it is important that for accountability purposes this is disclosed.
- BC7.85 There was strong support for cost of fulfillment by respondents to ED 76. Consultation on ED 76 did not identify issues previously unconsidered by the IPSASB. The IPSASB therefore confirmed the retention of cost of fulfillment.

Measurement Bases for Liabilities not included in Updated Conceptual Framework

- BC7.86 The following measurement bases and approaches for liabilities in the 2014 version of the Conceptual Framework have not been included in the updated version:
- Market value;
 - Assumption price; and
 - Cost of release.

³ The IPSASB uses the word ‘fulfillment’. The IASB uses the word ‘fulfilment’. This reflects usage respectively in North America and the United Kingdom. Hereafter the word ‘fulfillment’ is used.

Market Value

- BC7.87 Market value for liabilities was defined in the 2014 version of the Conceptual Framework as:
The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.
- BC7.88 In light of the inclusion of fair value the IPSASB concluded that the retention of market value was unnecessary, as it would overlap with fair value and its inclusion would be confusing.
- BC7.89 Following consultation on ED 76 the IPSASB confirmed that there was no case for retaining market value.

Assumption price

- BC7.90 Assumption price was defined in the 2014 Conceptual Framework as:
The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.
- BC7.91 Assumption price is an entity-specific measurement basis included in the 2014 Conceptual Framework. It has not been used in the IPSASB literature at the standards level as of 2021. It has some similarities to current cost for liabilities, as defined by the IASB in its 2018 Conceptual Framework, but refers to a liability of a counterparty, rather than a liability of the reporting entity.
- BC7.92 The IPSASB assessed the case for retention of assumption price. The inclusion of assumption price (along with cost of release discussed in paragraphs BC 7.96- BC 7.100) was on the grounds that there may be limited circumstances where it might meet the measurement objective, for example in the case that a government takes on liabilities at concessionary rates.
- BC7.93 The IPSASB concluded that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit potentially material. In such circumstances fair value could be used as the measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.
- BC7.94 Following comments from respondents to ED 76 the IPSASB reconsidered the case for and against the retention of assumption price. The IPSASB noted that:
- Neither the IASB's 2010 Conceptual Framework nor the 2018 Conceptual Framework defined or described assumption price.
 - In those limited cases where there is an "assumption price" it would be the same as historical cost. Following assessment of a day one gain or loss, it would then be superseded by cost of fulfillment in the year-end financial statements.
- BC7.95 The IPSASB therefore confirmed that assumption price should not be retained in the Conceptual Framework.

Cost of Release

- BC7.96 Cost of release was defined in the 2014 version of the Conceptual Framework as the amount of an immediate exit from an obligation—either the amount a creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Cost of release is entity-specific and does not assume an orderly market. At the standards level the measurement requirements and guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, include a grey letter reference to 'transfer(ing) an obligation at the

reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. This reference in IPSAS 19.45 is consistent with cost of release.

BC7.97 The IPSASB noted that the IASB had concluded that it was unnecessary to include cost of release in its 2018 Conceptual Framework because it is relatively unusual for entities to obtain release from liabilities, rather than fulfilling them.

BC7.98 The 2014 Conceptual Framework justified the inclusion of cost of release on the grounds that there may be limited circumstances where it might meet the measurement objective. The IPSASB concluded that standards development since 2014 has not identified sufficient examples of circumstances where cost of release is appropriate to justify retention. The IPSASB therefore decided not to include cost of release in the updated Chapter 7 of the Conceptual Framework.

BC7.99 Following comments from respondents to ED 76 the IPSASB reconsidered the case for and against the retention of cost of release. The IPSASB noted that:

- The IASB considered cost of release in the development of the Measurement chapter of the 2018 Conceptual Framework but did not include it for the reasons identified above. The IPSASB considered that instances of entities obtaining release from liabilities, rather than fulfilling them, are similarly rare in the public sector.
- Cost of release gives rise to accountability and audit/assurance issues related to the qualitative characteristic of verifiability. Negotiations with a counterparty or third party are likely to be sensitive and confidential. Unless there is a binding arrangement with a counterparty or third party, the basis for determining cost of release may be questionable. From an accountability perspective cost of release gives rise to public interest considerations, as it may be of questionable propriety for public sector entities to settle obligations other than by fulfilling them.
- The responses to the Consultation Paper, *Measurement*, issued in April 2019 had indicated little support for including guidance on cost of release.

BC7.100 The IPSASB therefore confirmed that cost of release should not be retained in the Conceptual Framework.

Current Cost

BC7.101 Paragraph BC 7.32 discusses current cost as defined by the IASB for assets in its Conceptual Framework. Noting that in the IASB's Conceptual Framework the definition of current cost includes liabilities as well as assets, the IPSASB considered whether to include current cost as a measurement basis for liabilities. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that such a measurement basis might provide useful information for managerial purposes but considered that its practical application for financial reporting is limited, as cost of fulfillment better meets the qualitative characteristics of financial reporting. The IPSASB therefore concluded that current cost for liabilities should not be included in the Conceptual Framework.

Own Credit Risk

- BC7.102 The Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, sought the views of respondents on the treatment of an entity's own credit risk and changes in value attributable to changes in an entity's own credit risk.
- BC7.103 The majority of respondents who commented on this issue considered that it is more appropriate to deal with it at the standards level rather than in the Conceptual Framework. The IPSASB concurred in this view and therefore did not include a discussion of own credit risk in the Conceptual Framework. The IPSASB noted that where a market-based value is used to measure a liability it is necessary to consider the treatment of the entity's own credit risk. The IPSASB did not redeliberate this issue in the Limited-scope Update.

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