New Zealand Accounting Standards Board

MEETING PACK

for

NZASB Meeting - 126 Public

Thursday, 11 December 2025

9:00 am (NZDT)

Held at:

XRB Boardroom

Level 6, 154 Featherston Street, Wellington

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INDEX

Cover Page

Index

Agenda

Attached Documents:

5.1 a	Board Memo - SPI Guidance Plan and Timelines.pdf	6
5.1 b	DRAFT Guidance – Tier 1 and Tier 2 NFP Service Performance Reporting.pdf	10
6.1 a	Board memo - Materiality PBE Policy Approach.pdf	19
6.1 b	IPSASB-Definition-Material.pdf	28
7.1 a	Board Memo- Amendments to PBE Standards - Specific IFRIC Interpretations.pdf	45
7.1 b	DRAFT Signing memo - Amendments to PBE Standards Specific IFRIC Interpretations.p	50
8.1 a	Board memo - Tier 3 guidance and FAQs.pdf	56
8.1 b	Draft Additional FAQs Tier 3 Standard.pdf	60
8.1 c	Draft Tier 3 Guidance Incorporated Societies.pdf	65
9.1 a	Board memo - Translation to a Hyperinflationary Presentation Currency.pdf	86
9.1 b	Signing memo - Translation to a Hyperinflationary Presentation Currency.pdf	95
13.1 a	Board memo - IPSASB Measurement application of the PBE Policy Approach.pdf	99
13.1 b	IPSAS 46 - Measurement.pdf	120
13.1 c	IPSAS-45-Property-Plant-Equipment.pdf	295
13.1 d	IPSASB - Update to Chapter-7-Conceptual-Framework.pdf	425
13.1 e	IPSASB-Amendments-IPSAS-Application-IPSAS-46.pdf	459

AGENDA

NZASB MEETING - 126 PUBLIC

Name:	New Zealand Accounting Standards Board
Date:	Thursday, 11 December 2025
Time:	9:00 am to 4:00 pm (NZDT)
Location:	XRB Boardroom, Level 6, 154 Featherston Street, Wellington
Guests/Notes:	Carolyn Cordery (Committee Chair), Sheree Ryan (Deputy Chair), Keith Kendall, Jason Stinchcombe, Lara Truman, Richard Perry, Richard Smyth, Nicola Haslam, Alex Stainer, Carly Berry, Gali Slyuzberg, Leana van Heerden, Michelle Lombaard, Nimash Bhikha, Tereza Bublikova, Wendy Venter

1. Non-Public Session

1.1 Non-Public Session — 9:00 am (15 min)

2. Non-Public Session

2.1 Non-Public Session — 9:15 am (50 min)

3. Non-Public Session

3.1 Non-Public Session — 10:05 am (20 min)

4. Break

4.1 Break — 10:25 am (10 min)

5. Service Performance Reporting

5.1 Service Performance Reporting — 10:35 am (30 min)

For Decision

Supporting Documents:

5.1.a	Board Memo - SPI Guidance Plan and Timelines.pdf	6
5.1.b	DRAFT Guidance – Tier 1 and Tier 2 NFP Service Performance Reporting.pdf	10

6. PBE Policy Approach – IPSASB Definition of Material

6.1 PBE Policy Approach – IPSASB Definition of Material

11:05 am (15 min)

For Decision

Supporting Documents:

6.1.a	Board memo - Materiality PBE Policy Approach.pdf	19
6.1.b	IPSASB-Definition-Material.pdf	28

7. Amendments to PBE Standards: Specific IFRIC Interpretations

7.1 Amendments to PBE Standards: Specific IFRIC Interpretations

11:20 am (10 min)

For Decision

Supporting Documents:

7.1.a	Board Memo- Amendments to PBE Standards - Specific IFRIC Interpretations.pdf	45
7.1.b	DRAFT Signing memo - Amendments to PBE Standards Specific IFRIC Interpretations.pdf	50

8. Tier 3 guidance and FAQs

8.1 Tier 3 guidance and FAQs

11:30 am (25 min)

For Discussion

Supporting Documents:

8.1.a	Board memo - Tier 3 guidance and FAQs.pdf	56
8.1.b	Draft Additional FAQs Tier 3 Standard.pdf	60
8.1.c	Draft Tier 3 Guidance Incorporated Societies.pdf	65

9. Amending Standard – Translation to a Hyperinflationary Presentation Currency (NZ IAS 21)

9.1 Amending Standard–Translation to a Hyperinflationary Presentation Currency

11:55 am (10 min)

For Decision

Supporting Documents:

9.1.a	Board memo - Translation to a Hyperinflationary Presentation Currency.pdf	86
9.1.b	Signing memo - Translation to a Hyperinflationary Presentation Currency.pdf	95

10. Lunch

10.1 Lunch

12:05 pm (30 min)

11. Non-Public Session

11.1 Non-Public Session 12:35 pm (10 min)

12. Non-Public Session

12.1 Non-Public Session 12:45 pm (60 min)

13. PBE Policy Approach – IPSASB Measurement

13.1 PBE Policy Approach – IPSASB Measurement (public) 1:45 pm (30 min)

For Decision

Supporting Documents:

13.1.a	Board memo - IPSASB Measurement application of the PBE Policy Approach.pdf	99
13.1.b	IPSAS 46 - Measurement.pdf	120
13.1.c	IPSAS-45-Property-Plant-Equipment.pdf	295
13.1.d	IPSASB - Update to Chapter-7-Conceptual-Framework.pdf	425
13.1.e	IPSASB-Amendments-IPSAS-Application-IPSAS-46.pdf	459

14. Break

14.1 Break 2:15 pm (15 min)

15. Non-Public Session

15.1 Non-Public Session 2:30 pm (60 min)

16. Non-Public Session

16.1 Non-Public Session 3:30 pm (10 min)

17. Non-Public Session

17.1 Non-Public Session 3:40 pm (10 min)

18. Close Meeting

18.1 Close the meeting

Next meeting: NZASB Meeting -127 - 12 Feb 2026, 9:00 am

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To: NZASB Members

Meeting date: 11 December 2025

Subject: **PBE FRS 48 – SPI Guidance Plan and Timelines**

Date: 28 November 2025

Prepared by: Nimash Bhikha

Through: Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

COVER SHEET

Project priority and complexity

Domestic project purpose	To address the reporting and assurance issues identified relating to service performance reporting and to ensure the service performance reporting requirements for Tier 1 and Tier 2 Public Benefit Entities (PBEs) in PBE FRS 48 *Service Performance Reporting* are appropriate to support high quality reporting of this information.
Cost / benefit considerations	The cost and benefits of amending PBE FRS 48 at this time were considered in previous Board meetings. The NZASB considered the consultation feedback and decided that no changes to the reporting standard should be made at this time, and that further guidance around SPI should be developed.
Project priority	**High Priority** This project is a strategic priority for the XRB and impacts on the NZASB, NZAuASB and XRB Board. We have heard issues relating to the reporting and assurance of service performance information for several years, and actions to address these are needed to support the value, attitudes towards, and usefulness of, this information.

Overview of agenda item

Board action required	**High Complexity** • **PROVIDE FEEDBACK** on the draft plan for guidance over service performance reporting for 2026; and • **PROVIDE FEEDBACK** on the draft guidance developed from EG A10 *Guidance for entities applying PBE FRS 48*

Purpose and introduction

1. The XRB released a consultation paper on the reporting and assurance of service performance information (SPI) in June 2025. The NZASB considered the consultation feedback and decided that no changes to the reporting standard should be made at this time, and that further guidance around SPI should be developed.

2. The purpose of this item is to provide an overview of the plan for developing and releasing SPI guidance, and the draft guidance developed from EG A10 *Guidance for entities applying PBE FRS 48 Service Performance Reporting*.

Recommendations

3. We recommend the Board **PROVIDE FEEDBACK** on the draft plan for guidance over service performance reporting for 2026 and the draft guidance developed from EG A10.

Structure of this memo

4. This memo includes following sections:

   (a) Background

   (b) Guidance plan and timelines

Background

5. In 2024, the XRB held workshops with not-for-profit (NFP) preparers, users, and assurance practitioners to gather feedback and perspectives on the implementation of SPI reporting and assurance.

6. Feedback from the workshops showed strong support for consistent, high-quality SPI reporting. However, concerns were expressed about the difficulties experienced in reporting and assuring SPI.

7. In June 2025 the XRB issued a consultation paper to understand whether the root causes of challenges, and to seek feedback on potential actions to help address these challenges. We proposed prioritising two streams of work:

   - Potential targeted amendments to PBE FRS 48 *Service Performance Reporting* – to improve understanding and application. This would include clarifying requirements in the standard and introducing an authoritative appendix specific to not-for-profit entities. We did not envisage changing the core principles of the standard.
   - Potential development of additional reporting and assurance guidance – to help entities build SPI reporting capabilities and to help assurance practitioners address SPI assurance challenges.

8. We publicised our consultation and held virtual and in-person outreach sessions throughout June to August 2025. Overall levels of engagement were low, and we did not receive the previous breadth of views.

9. The feedback received to the consultation paper was mixed and summarised in our what we heard document. The key themes were:

    - SPI reporting and assurance challenges stem from low maturity of SPI processes and frameworks, limited resources, undeveloped systems and controls, and differing expectations among preparers and assurance practitioners.
    - The value of reporting and assuring SPI is not currently clear
    - There were mixed views on making amendments to reporting standards
    - Stakeholders supported more reporting guidance but were mindful of potential additional costs
    - Assurance practitioners agreed that more SPI assurance guidance would be helpful
    - Questions were raised over users of SPI, but we heard users do exist

10. In October 2025, the NZASB considered the consultation feedback and decided that no changes to the reporting standard should be made at this time, and that further guidance around SPI, based on the existing EG A10 *Guidance for entities applying PBE FRS 48 Service Performance Reporting*, should be developed to help address some of the challenges identified.

11. The NZASB also agreed to reconsider whether this type of reporting should be mandatory in the future, when a full post-implementation review of PBE FRS 48 occurs.

12. In the XRB's 2025-26 Statement of Performance Expectations (SPE) and 2025-30 Statement of Intent (SOI) we committed to focus on public benefit entity performance reporting and assurance, noting we will provide guidance materials and additional educational sessions to assist in implementation, as needed.

Guidance plan and timelines

13. Feedback from our SPI consultation document noted that preparers and users have not reviewed these guidance documents, and some preparers were not aware of them. For preparers that did know about these guidance documents, they noted that they were long, detailed and overwhelming, and were not referred to, particularly for finance teams of NFP entities who have limited time and resources to spend on reading guidance.

14. In October 2025, the Board agreed that shorter reporting guidance can be developed, using the information contained within EG A10, to allow for it to reach a wider audience and be referred to more frequently as entities look to prepare their SPI reporting.

15. Our aim with this guidance is to promote the principles within the existing standard and to provide digestible and understandable guidance around reporting SPI to help address some of the challenges which exist around this type of reporting.

16. Our plan is to release guidance during the first half of 2026, so it can be considered and used by PBEs as soon as possible.

#	Topic	Release Date
1	**PBE FRS 48 application guide** – How to apply PBE FRS 48 *Service Performance Reporting*	February 2026
2	**Factsheet 1** – Understanding the purpose of SPI reporting	February 2026
3	**Factsheet 2** – SPI considerations necessary before the reporting period begins	March 2026
4	**Factsheet 3** – SPI considerations necessary during the reporting period	April 2026
5	**Factsheet 4** – Considering improvements and changes over time to benefit the reporting of SPI	May 2026

17. We have developed draft guidance documents based on the key areas of EG A10 *Guidance for entities applying PBE FRS 48 Service Performance Reporting*. Please see draft guidance in agenda Item 5.1b.

Question for the Board:

Q1. Does the Board have any **FEEDBACK** on the draft plan for guidance over service performance reporting for 2026?

Q2. Does the Board have any **FEEDBACK** on the draft guidance developed from EG A10?

Tier 1 & Tier 2 Public Benefit Entities
PBE FRS 48 *Service Performance Reporting*

Preparing for service performance reporting

Over the coming months, we will release four factsheets to help preparers understand service performance information (SPI). Detailed guidance and the standard is available on our website.

Before you start
Understand the purpose and scope of service performance reporting as set out in **FACTSHEET 1**

1. Document the entity's purpose/vision, its key objectives and what it is hoping to achieve
2. Document how the entity plans to achieve its objectives over the medium to long term
3. Select and appropriate and meaningful mix of performance measures and descriptions to present SPI
4. Develop approaches/systems and controls for measuring and collecting SPI
5. Throughout the period gather the information (including supporting documentation) required to report selected SPI
6. Determine the most appropriate and meaningful way to present the period end SPI
7. Prepare SPI for reporting together with the financial statements
8. Review the SPI to ensure it complies with PBE FRS 48
9. Obtain approval by those charged with governance and prepare for period-end assurance (if applicable)
10. Review and consider improvements for the next period

SPI considerations before the reporting period begins (FACTSHEET 2)

SPI considerations during the reporting period (FACTSHEET 3)

As you reflect
*SPI considerations for the next reporting period (**FACTSHEET 4**)*

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Tier 1 & Tier 2 Public Benefit Entities
PBE FRS 48 *Service Performance Reporting*
Factsheet 1: Purpose and scope of service performance reporting

Purpose of service performance information

The objective of service performance information (SPI) is to provide users of general purpose financial reports information about an entity's performance in the year that is useful for accountability and decision-making purposes.

Public benefit entities (PBEs) do things for a purpose – they exist to help others or make a difference to individuals, society or the environment. SPI is a critical part of discharging accountability.

Reporting SPI is an essential part of accountability, to explain what an entity has set out to do and what they achieved. It is not about money, but the difference the entity makes to people and communities.

Before starting SPI reporting, understand its purpose: it's about **accountability** for that reporting period

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What is service performance information

SPI is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.

Other reporting mechanisms (like management commentary within annual reports, other separate documents released at the same time as the SPI reporting and the He Tauira framework) can be used for other types of non-financial information which is not SPI.

Contextual information:
Why the entity exists, what it aims to achieve, and its approach.

Performance information:
What the entity delivered during the reporting period, including activities and their immediate effects.

Contextual information should be drawn from relevant documents (such as constitutions, trust deeds, mission statements and recent plans and strategies). If an entity uses a performance framework, theory of change or intervention logic, then this will be relevant and helpful. SPI should be consistent with these documents. Before commencing SPI reporting, understanding and clearly defining your contextual information is important to enable good reporting.

Here are some useful prompts that you might consider before you start reporting.

- Why does the entity exist?
- What outcomes is the entity seeking to achieve?
- What goods or services is the entity planning to deliver over the medium to long term?
- How does the entity intend to conduct its planned activities, and will this involve working collaboratively with other organisations?

Role of PBE FRS 48 *Service Performance Reporting*

PBE FRS 48 establishes principles and high-level requirements for the reporting of service performance information rather than specifying detailed reporting requirements.

This is because the standard will be applied by a wide range of PBEs. PBEs differ in size, organisational form and in what they do. Entities also use a variety of terms and approaches to explain what they do, why they do it and what they have achieved. Entities may be subject to a range of service performance reporting requirements, including legislative requirements and may use a variety of performance frameworks.

Your service performance reporting should be:

- **Relevant** – Focused on things that matter to your funders, supporters, and the public.
- **Reliable** (Faithful representation)– Based on accurate, honest information.
- **Understandable** – Written in plain language and easy to follow.
- **Timely** – It should relate to the year you're reporting on.
- **Comparable** – So readers can see changes from last year.
- **Verifiable** – Based on information you can prove with evidence.

PBE FRS 48 explains how these characteristics relate to service performance information. For service performance information to be faithfully representative it must be complete, neutral and free from material errors.

All qualitative characteristics must be considered when selecting and presenting service performance information. In practice, some information may have more of one characteristic than another. It may be necessary to consider the overall balance of characteristics and make trade-offs between attributes.
The concept of materiality can help in making these and other judgments.

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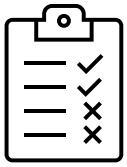


Overarching principles

Service performance information that is being reported should be prepared with the users of that information in mind. Users include service recipients and funders. Consider the following questions before reporting:

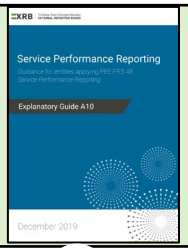
- Is information useful for accountability and decision making?
- Is information appropriate and meaningful?

In our next editions we will continue to explore SPI considerations before and during the reporting period. Please refer to the standard and detailed guidance that is available on our website.

Explanatory Guide EG A10

The Explanatory Guide EG A10 provides detailed guidance and implementation support to help you think about SPI and your reporting. If you require further information and guidance, please refer to this guide regularly throughout your SPI reporting journey.

Explanatory Guide EG A10



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EXTERNAL REPORTING BOARD

Tier 1 & Tier 2 Public Benefit Entities
PBE FRS 48 *Service Performance Reporting*
Factsheet 2: SPI considerations before the reporting period begins

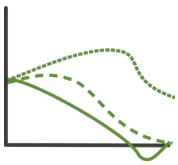
Document the entity's purpose/vision, its key objectives and the broader aims and objectives it is hoping to achieve

1

Some entities will already have much of the information they need to report on SPI, although it might not be in an appropriate format for reporting to external parties. Entities should think about their internal and external reporting and what information can be repurposed.

It may be a question of pulling it together, connecting the dots, highlighting the important elements, and making existing information appealing and accessible to readers.

2



Document how the entity plans to achieve its objectives over the medium to long term

PBE FRS 48 requires an entity to explain what it does and why, the changes it wants to bring about, and how it plans to achieve its desired objectives. The change that an entity wants to bring about can range from the achievable to the aspirational.

DRAFT

Develop approaches/systems and controls for measuring and collecting selected SPI

3

If an entity has clear strategies and reports regularly to the governing body on progress in relation to those strategies, its end of year service performance information will largely be an aggregation of that information.

You should document how you have selected and measured your performance. This will assist discussions with your assurance practitioner and be a useful record for the next year

Select an appropriate and meaningful mix of performance measures and/or descriptions to present SPI

4

PBE FRS 48 stresses the importance of considering the information needed by users for accountability and decision making, the desired qualities of information (such as relevance and reliability) and the need to apply the concept of materiality. It uses the phrase 'appropriate and meaningful' as a reminder to think about all of these things.

Ideas for possible performance measures can come from the reports of entities with similar objectives and services, talking to people involved with similar entities and reading relevant publications. Discussions with like-minded individuals can help identify commonly used measures and/or descriptions. Each entity needs to determine the level of detail that is the most appropriate and meaningful to explain what it does and why, having regard to the users of this information.

Consider a mix of quantitative metrics (numbers) and qualitative descriptions (narrative and stories) that show:

- **What you delivered** (e.g. meals provided, workshops run).
- **What changed as a result** (e.g. improved wellbeing, less isolation).
- **Focus on what your audience cares about** — what matters to groups such as funders, donors , supporters or your local community.

DRAFT

The following questions might be useful when preparing SPI about what the entity has done in the period:

What are the entity's key objectives, what is it accountable/ responsible for and what did the entity intend to achieve?	What activities or activities' effects will best illustrate what the entity has done during the period in working towards its broader aims and objectives?	What internal records are already retained on the achievement of the entity's key objectives/goals (and/or grant purposes)?
What performance measures and/or descriptions will be used to report on the delivery of service objectives for the period – where will the information come from?	For new information, what additional systems and controls are required to capture the required information?	How will we validate the information about what the entity has done in the period for external assurance purposes?

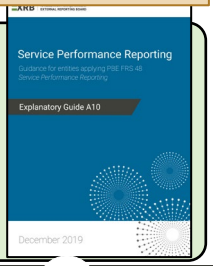
Explanatory Guide EG A10 offers practical examples and guidance to help entities understanding this reporting. Keep in mind the purpose of the statement: this reporting is all about accountability in a specific reporting period.

In our next edition we will explore SPI considerations during the reporting period. Please refer to the standard and detailed guidance that is available on our website.

Explanatory Guide EG A10

The Explanatory Guide EG A10 provides detailed guidance and implementation support to help you think about SPI and your reporting. If you require further information and guidance, please refer to this guide regularly throughout your SPI reporting journey.

Explanatory Guide EG A10



Tier 1 & Tier 2 Public Benefit Entities
PBE FRS 48 *Service Performance Reporting*
Factsheet 3: SPI considerations during the reporting period

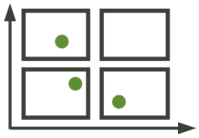
5 Throughout the period gather the information and supporting documentation

It is important to think about your approach to maintaining information regularly throughout the period. You should consider the following:

- Reviewing financial and non-financial databases regularly
- Maintaining SPI documentation throughout the year
- Establishing controls and periodic reviews and checks

There are benefits to investing in systems and processes that collects evidence around SPI, as it will help comply with requirements, but also help with making informed and effective decisions and governance.

6 Determine the most appropriate and meaningful way to present the period end SPI



PBE FRS 48 does not prescribe the format for presenting SPI, as it is likely to be a combination of narrative and numerical information, a variety of formats can be used. You should consider what is the best way to present key SPI to users and make the information visually appealing and useful for decision-making and accountability.

7 Prepare SPI for reporting together with the financial statements

SPI and financial statements are both important components of an annual report. Annual reports should tell the whole story of the entity's performance – both in terms of its financial performance and its service performance and explain the links between the two. Examples include linking cost of services with outputs delivered or using charts to demonstrate how funds were allocated.

Acknowledgement of the use of donated goods or services which have not been recognised in the financial statements and information about volunteer contributions can be more useful than cost information in providing an overall picture of the entity's performance.

DRAFT

8

Review the SPI to ensure it complies with PBE FRS 48

Entities often make judgements about what to measure, how to measure it, and how to present it. This helps readers understand why, why the information is the way it is and is an important part of appropriate and meaningful service performance information.

Entities need to explain their reasoning for the information they report, especially if it:

- **Choose one measure** over another when they measure similar things.
- **Group certain activities together** to shorten the reporting.
- **Use a new method** or stop reporting something done last year.

Be sure to consider judgements around selection, measurement, aggregation, and presentation of your service performance information. The following questions will be a useful starting point when thinking about the disclosure of judgements.

What judgements had the most significant effect on the service performance information reported?	To what extent is the service performance information reported consistent with the entity's overall purpose and objectives? Explain if it's not.	How much discretion does the entity have over the selection, aggregation and presentation of service performance information reported?
To what extent were was the selection of performance measures determined through internal judgement, or informed through consultation with key users?	Have the key judgements been documented?	Has the entity advised the external assurance practitioners which judgements it plans to disclose?

DRAFT

Obtain approval by the governing body and assurance

9

The governing body (for example, the Board of Trustees) is responsible for final approval of the SPI – Ensure they have input into the selection of measures and the reporting presentation.

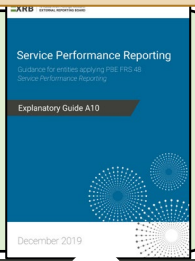
Where applicable, talk to your assurance practitioners early about what information you are planning to report, why you believe this will meet the requirements of the standard and what evidence you will have.

In our next edition we will explore continuous improvements in SPI. Please refer to the standard and detailed guidance that is available.

Explanatory Guide EG A10

The Explanatory Guide EG A10 provides detailed guidance and implementation support to help you think about SPI and your reporting. If you require further information and guidance, please refer to this guide regularly throughout your SPI reporting journey.

Explanatory Guide EG A10



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Tier 1 & Tier 2 Public Benefit Entities
PBE FRS 48 *Service Performance Reporting*
Factsheet 4: Continuous improvements around SPI

10

Continuous improvements over time

Service performance reporting should evolve over time as entities refine their measures, improve data collection, and respond to stakeholder feedback. Service performance reporting is not expected to be perfect and PBEs often want to know whether what they do works and what they could do better.

Possible reasons for changes in reporting may include :

- Changes in the entity's purpose or strategy, or nature of the entity's activities, compared to the previous period
- Changes in the descriptions of goods and services or the way information is aggregated to improve reporting
- Changes in performance measures due to improved information being available and reliable
- Changes in industry best practice or information requested from funders

DRAFT

PBE FRS 48 does not require that an entity report on what it does in terms of monitoring, seeking feedback and evaluation, but such information can provide context.

PBE FRS 48 has requirements to make sure that users can understand changes in service performance information over time.

Changing measures over time

If you change how to measure or report your service performance information, you should say what changed and explain why it changed - This will give your report a sense of continuity and helps people track your performance over time.

You should review measures and update them as needed, particularly as processes, record-keeping and data changes and improves over time - Be honest about what's working and what's not.

Comparative SPI

Entities must report comparative SPI from at least the previous period so readers can see how things have changed. If measures or methodologies change, the nature and reason for the change must be disclosed.

Comparative information for at least the previous reporting period must be provided for all amounts included in the current SPI and, where relevant, for the narrative and descriptive information reported in the current period. If measures or measurement methodologies change, the nature and reason for the change must be disclosed.

Judgement is needed in deciding whether prior period narrative and descriptive information is required. It is important to think about how your performance measures can be kept stable and consistent over periods. Careful selection of the information to be reported at the outset will help avoid unnecessary changes.

The following questions will be a useful starting point when thinking about the disclosure of comparatives and disclosure of changes to what you report or how you report in contrast to the previous report:

Has there been any changes in the nature of the entity's activities from the prior period or from what was planned?	Do the changes ultimately result in the user receiving better information on the performance of the entity?

DRAFT

Reporting on shared performance

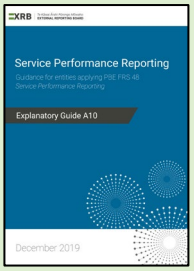
Entities often work with other entities to achieve their objectives. Because there are many ways of working together with other organisations, PBE FRS 48 does not establish detailed requirements about reporting on such relationships.

If an entity works with other parties, reporting on nature of the relationships and how they work together on specific projects will help provide appropriate and meaningful information to users about that shared performance.

Explanatory Guide EG A10

Please refer to the standard and detailed guidance that is available. The Explanatory Guide EG A10 provides detailed guidance and implementation support to help you think about SPI and your reporting. If you require further information and guidance, please refer to this guide regularly throughout your SPI reporting journey.

Explanatory Guide EG A10



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To: NZASB Members

Meeting date: 11 December 2025

Subject: **IPSASB Definition of Material**

Date: 27 November 2025

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Through: Gali Slyuzberg, Michelle Lombaard

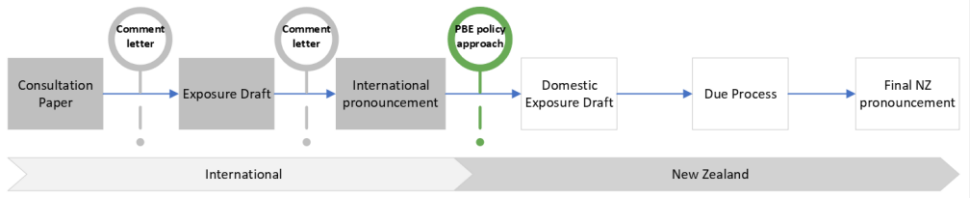
☒ **Action Required** ☐ **For Information Purposes Only**

COVER SHEET

Project priority and complexity

Project purpose	To influence the direction of the IPSASB project to align the definition of material in the IPSAS Standards with the Conceptual Framework and improve the application of materiality to reduce over-disclosure of irrelevant information and under-disclosure of relevant information.
Cost/benefit considerations	Materiality is fundamental to balancing the benefits and costs of reporting. Improving the application of materiality is expected to lead to greater benefits of reporting. The costs and benefits are set out in Table 2 of this memo.
Project priority	**Low priority** The IPSASB have separated the project into 3 phases • **Phase 1 –** align definition of material across IPSAS Standards and Conceptual Framework • **Phase 2 –** issue guidance to help the application of materiality for financial reporting based on IFRS Practice Statement 2 • **Phase 3 –** develop guidance on the application of materiality for sustainability reporting The IPSASB have issued a final pronouncement that makes targeted amendments to several IPSAS Standards to align the definition of material with the Conceptual Framework, and have commenced Phase 2.

Overview of agenda item

Project Status	

Board action required	**Low complexity** **APPLY** the PBE Policy Approach to the IPSASB pronouncement *Definition of Material* **AGREE** to commence a project to develop PBE Amending Standard based on the IPSASB pronouncement *Definition of Material* as a starting point.

Purpose

1. In accordance with the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach), the Board is required to consider if and when to incorporate the IPSASB pronouncement *Definition of Material* into the suite of PBE Standards as issued by the XRB.

2. The purpose of this memo is to work through the application of the PBE Policy Approach as it relates to the IPSASB pronouncement *Definition of Material*.

Recommendations/ actions

3. We recommend that the Board:

   (a) APPLIES the PBE Policy Approach;

   (b) AGREES to commence a project to develop a PBE amending standard based on the IPSASB pronouncement *Definition of Material*; and

   (c) AGREES to defer issuing a PBE ED until the IPSASB completes Phase 2 of its materiality project, and releases application guidance aligned with IFRS Practice Statement 2.

Structure of this memo

4. The remaining sections of this memo are:

   (a) Background

   (b) How has the IPSASB addressed the NZASB's comments?

   (c) Application of the PBE Policy Approach

   (d) Policy approach to development of suite of PBE Standards

   (e) Recommended timing for issuing a PBE exposure draft

   (f) Next steps

Background

5. At its September 2024 meeting, the IPSASB added a limited scope project on Making Materiality Judgements to its work program. The project brief was finalised in March 2025. The IPSASB decided to structure the project into three phases:

   (a) Phase 1 – Review and align the definition of 'material' across IPSASB financial reporting literature (i.e. aligning IPSAS Standards with the IPSASB Conceptual Framework).

   (b) Phase 2 – Develop non-authoritative guidance on making materiality judgements when preparing financial statements in accordance with IPSAS Standards, by adapting IFRS Practice Statement 2 *Making Materiality Judgments* to the public sector context. One

of the public sector factors to be addressed in Phase 2 is the broader scope of the term 'primary users' in the IPSAS Standards compared to IFRS Accounting Standards.

(c) Phase 3 – Develop guidance for materiality judgments in sustainability reporting under IPSASB Sustainability Reporting Standards, subject to the finalisation of IPSASB SRS ED 1 *Climate-related Disclosures*.

6. IPSASB ED 93 was issued in May 2025 as part of Phase 1 of this project, and included the following proposals:

(a) Clarify in the Conceptual Framework that decisions about materiality are intended to reflect the information needs of the primary users of general purpose financial reports – rather than all possible users.

Align the definition of 'material' in IPSAS 1 *Presentation of Financial Statements* and other IPSAS with the description of materiality in the IPSASB Conceptual Framework (which the IPSASB updated in 2023 by adding a reference to 'obscuring' information and replacing 'could influence' with 'could reasonably be expected to influence' in the context of users' decision making – in addition to the new addition of 'primary' ahead of 'users'): *'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial statements prepared for that reporting period'*.

(b) Add guidance on materiality into IPSAS 1, particularly with respect to not obscuring material information – aligned with the IASB's 2018 amendments in *Definition of Material*, which amended IAS 1 *Presentation of Financial Statements* (carried over into IFRS 18 *Presentation and Disclosure in Financial Statements*).

7. The domestic consultation period closed 27 June. We received one submission. The feedback was incorporated into the comment letter submitted by the Board.

8. In the comment letter, the Board noted its general support for aligning the definition of material throughout IPSAS literature, but that Phase 2 will be more critical to improving the application of materiality judgements in practice (more specific comments are included in Table 1 in the next section).

9. In October 2025, the IPSASB issued the final pronouncement *Definition of Material*, effective for periods beginning on or after 1 January 2027, and concluded Phase 1 of its project.

How has the IPSASB addressed the NZASB's comments?

10. The table below outlines specific comments the Board made in its comment letter, and how/whether the IPSASB have addressed these comments within the final pronouncement. As noted above, the NZASB's comment letter was generally supportive of the IPSASB's proposals.

Table 1

NZASB specific comments for action	IPSASB action/explanation
The definition of 'material' has two components, i.e. it refers to influencing (1) the discharge of accountability by the entity, or (2) the decisions of primary users. To make it clear that *both* components relate to primary users, we had requested that the	**No action**. IPSASB noted that alterations to the definition (other than adding

IPSASB narrow the focus of the first component of the definition of material, by adding the words 'of primary users' ahead of 'discharge of accountability', in addition to the IPSASB's proposed amendment of adding 'primary' prior to 'users' in the second component of the definition of material (below). *'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the GPFRs'.*	'primary' ahead of the existing reference to 'users') were beyond this limited scope project. The definition of material was recently consulted in ED 81.
The Conceptual Framework references general purpose financial *reports* (GPFR) in the context of the definition of materiality, while IPSAS 1 references general purpose financial *statements* (GPFS) in context of the definition of materiality. We asked that this distinction be noted in the Basis for Conclusions (BC) and that IPSASB should clarify whether materiality should be considered in context of GPFR in addition to GPFS when applying IPSAS 1, especially given recent IPSASB developments relating to wider GPFR (e.g. the development of sustainability standards, considerations on whether to issue a standard on service performance reporting).	**No immediate action**. IPSASB plan to consider this point in more detail when they embark on Phase 3 of the Materiality project and develop materiality guidance for sustainability reporting under IPSASB sustainability reporting standards.
We recommended replacing all instances of 'users' with 'primary users' as appropriate within IPSAS and the Conceptual Framework. The IPSASB proposed the following: • Conceptual Framework: To add a footnote to paragraph 24 (which relates to users of GPFR), stating that 'users' has the same meaning as 'primary users' throughout the Conceptual Framework. • BC of IPSAS 1: To explain that it is unnecessary to change all instances of 'users' to 'primary users' throughout IPSAS, as the Conceptual Framework says that these terms are intended to be interpreted in the same way. However, the NZASB's comment letter noted the following: • The proposed footnote and BCs in the Conceptual Framework do not cover references to 'users' in IPSAS; and • Implying that 'users' means the same as 'primary users' throughout IPSAS and the Conceptual Framework, without undertaking the analysis to confirm this, could have unintended consequences – as there could be situations where 'users' was intended to be read more broadly. For these reasons, we recommended undertaking the abovementioned analysis and changing all instances of 'users' to 'primary users' where appropriate, throughout IPSAS and the Conceptual Framework.	**No action, other than some modifications to BCs**. Conceptual Framework: Having considered all instances of 'users' in the Conceptual Framework, the IPSASB noted that 'users' is intended to mean 'primary users' in most cases. The IPSASB explained in the BC that in those instances where 'users' does not mean 'primary users', this will be clear from the context of the paragraph. IPSAS: The IPSASB did not review all instances of the term 'users' in IPSAS. IPSASB do not think this is a good use of Staff time and thought this will delay the start of Phase 2 – which many stakeholders have noted is more critical to ensuring better application of materiality in application of IPSAS. The IPSASB modified the BC of IPSAS 1 so that the explanation for not changing all instance of 'users' to 'primary users' stands on its own (rather than referring to the

	Conceptual Framework). The BC notes that both terms refer to the definition of 'primary users'.
Remove superfluous wording 'prepared for that reporting entity' in paragraph 30 of IPSAS 14.	**Addressed** - IPSASB have removed this wording.

Application of the PBE Policy Approach

11. We are now asking the Board to apply the PBE Policy Approach and decide whether to initiate a project to incorporate the IPSASB pronouncement *Definition of Material* into the PBE Standards.

12. As *Definition of Material* is an amending IPSAS, as per the PBE Policy Approach there is a rebuttable presumption that *Definition of Material* **should be adopted into PBE Standards**.

13. Under the PBE Policy Approach, the decision on whether to amend PBE Standards is governed by the 'development principle', which states that "the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole)". Thus, "any developments should ensure that the needs of users are better met than they were prior to the development".

14. Table 2 in the following section considers the factors in the development principle, as provided for in the PBE Policy Approach, as they apply to *Definition of Material*.

15. If the NZASB decide to rebut the presumption, they should be aware that rebutting the presumption is expected to occur only in exceptional circumstances—such as when the Board has significant concerns that, in the New Zealand context:

    (a) The adoption of a new or amended IPSAS would not be appropriate or relevant (based on the development principle); and

    (b) The costs of adoption would outweigh the benefits.

16. If the NZASB decides to rebut the presumption, it also must report to the XRB Board:

    (a) Its decision and the rationale behind it; and

    (b) Any planned actions regarding the new or amended IPSAS, such as whether a domestic standard will be developed or whether elements of the IPSAS will be incorporated.

Policy Approach to Development of Suite of PBE Standards

Table 2: Factors in the Development Principle

Factors in the Development Principle	Comment
Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made.	We expect that adopting *Definition of Material* will lead to higher quality financial reporting than if the development was not made. The pronouncement aligns the definition of material throughout IPSAS with the Conceptual Framework, and would align the definition of material in PBE Standards with the PBE Conceptual Framework, which has already been updated for the IPSASB's 2023 Conceptual Framework amendments . The pronouncement also specifies that materiality judgements should be made in the context of whether the omission, misstating or obscuring of information will influence 'primary' users' decision making – focusing PBE preparers' materiality judgements on the information needs of primary users. These amendments provide a starting point for better application of materiality in practice, which will be further aided by the release of application guidance by the IPSASB in Phase 2 of the IPSASB's project. We expect that making appropriate materiality judgements should help to improve the focus of financial reporting on communicating information at the right level for primary users.
Whether the benefits of a potential development will outweigh the costs, considering as a minimum: **(i)** ***relevance to the PBE sector as a whole:*** **for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;** **(ii)** ***relevance to the not-for-profit or public sector sub-sectors:*** **whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;** **(iii)** ***coherence:*** **the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);** **(iv)** ***the impact on mixed groups*****.**	<u>Relevance to the PBE sector as a whole (and to the not-for-profit or public sector sub-sectors)</u> The proposals are directly relevant to the PBE sector as a whole. Materiality judgements must be made in both the Public and Not-for-profit sectors. Improving the application of materiality judgements to avoid too much immaterial information and/or not enough material information in the financial statements will be beneficial for users across the PBE sector as a whole. Any change in accounting standards, causes costs to be incurred, as the changes must first be understood and then applied. However, we expect that the changes resulting from *Definition of Material* may cause only limited costs to be incurred (mostly at adoption) but longer term will continue to result in benefits outweighing any initial costs. <u>Coherence</u> Aligning the definition of Material with that of the conceptual framework enhances the coherence of the PBE suite of Standards, as it removes inconsistency and focusses on the 'primary users' of the financial reports.

Factors in the Development Principle	Comment
	Impact on mixed groups We do not expect substantive impact for mixed groups. The IPSASB is undertaking the same exercise the IASB carried out several years earlier. The updated definition of material aligns closely with the IFRS definition, and both sets of Standards focus on those 'primary users' when making materiality judgements (noting that the meaning of 'primary users' in IFRS Accounting Standards is narrower than in IPSAS). Staff conclusion Overall, we consider that the potential benefits outweigh the costs of adoption. We expect the costs to PBEs of adopting of these pronouncements to be minor, noting that the amendments are not extensive in nature, and are expected to have limited impact on materiality judgements on their own (i.e. without Phase 2 of the project), as noted in the NZASB comment letter. We also note that these changes set the PBE suite of standards up well for improving the application of materiality in practice, and ensuring better information is communicated with 'primary users' to improve their decision making.

Question for the Board

Q1 Does the Board AGREE to commence a project to develop a PBE amending standard, using the IPSASB pronouncement *Definition of Material* as the starting point?

Recommended timing for issuing a PBE exposure draft

17. If the Board agrees to develop a PBE amending standard based on the IPSASB's *Definition of Material*, the next step would ordinarily be to prepare a domestic PBE ED for public consultation. However, we recommend deferring this step until IPSASB provides greater clarity on the content and form of its Phase 2 guidance.

18. As noted in our comment letter to the IPSASB, while we generally support the IPSASB's amendments in *Definition of Material*, we anticipate that these amendments will have limited impact on materiality judgements in the public sector. This is primarily due to the broad definition of 'primary users' in the PBE Conceptual Framework. The forthcoming Phase 2 guidance, expected in the first half of 2026, could be more effective in improving the application of materiality in practice.

19. Accordingly, we have been considering the most appropriate approach to developing and consulting on a PBE ED that incorporates the Phase 1 amendments. Rather than committing to a specific date for issuing the Phase 1 PBE ED, we propose waiting until the IPSASB determines the format of its Phase 2 guidance, whether as accompanying material to an IPSAS, as Recommended Practice Guidelines, or in another format. This decision along with the content of the guidance may influence both the development of the PBE ED and approach we take to domestic consultation.

20. We expect to confirm timing in the first half of 2026 as the IPSASB progresses Phase 2, noting that the IPSASB intends to complete Phase 2 by December 2026. We have also discussed deferring the issuance of the PBE ED with the Accounting Technical Reference Group (TRG) which confirmed that there is no urgency to incorporate the amendments in *Definition of Material* into PBE Standards at this time.

Question for the Board

Q2 Does the Board AGREE to defer the development of a PBE ED until we have further clarity on Phase 2 guidance and the form the application guidance aligned with IFRS Practice Statement 2 will take?

Next Steps

21. The next steps will depend on the Board's decision regarding the application of the PBE policy approach and the timing of the PBE ED. If the Board agrees to initiate a project, we will present a project plan for developing a draft ED at a future meeting in the first half of 2026. As part of the project, we will assess the extent of amendments needed to ensure that any new PBE Standard is fit-for-purpose for public sector and not-for-profit entities in New Zealand.

22. We will also monitor the IPSASB's discussions on Phase 2 of the Materiality project and the IPSASB's consultation on the draft guidance resulting from that project, which is expected to start in the first half of 2026.

Attachments

- IPSASB Pronouncement *Definition of Material*

Final Pronouncement
October 2025

IPSAS®

International Public Sector Accounting Standard ®

Definition of Material (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework)

IPSASB International Public Sector Accounting Standards Board®

IPSASB International Public Sector Accounting Standards Board®

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

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS®), IPSASB Sustainability Reporting Standards™ (IPSASB SRS™) and Recommended Practice Guidelines™ (RPG™) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Accounting Standards relate to the general purpose financial statements (financial statements) and are authoritative. IPSASB SRS Standards relate to sustainability disclosures and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS Accounting Standards and IPSASB SRS Standards, RPG Guidelines do not establish requirements. IPSASB SRS Standards and RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subjected.

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DEFINITION OF MATERIAL (AMENDMENTS TO IPSAS 1, IPSAS 3, AND THE CONCEPTUAL FRAMEWORK)

CONTENTS

Page

Introduction 4

Amendment: Part 1 – Amendments to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities 5

Amendment: Part 2 – Amendments to IPSAS 1, Presentation of Financial Statements 8

Amendment: Part 3 – Amendments to IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors 11

Amendment: Part 4 – Amendments to Other IPSAS Standards 12

Introduction

Objective

1. The objective of *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) is to:

   (a) Clarify that decisions about materiality are intended to reflect the needs of the primary users of general purpose financial reports; and

   (b) Align materiality guidance across IPSAS Standards with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities ('Conceptual Framework').

IPSAS Standards Amended

2. The table below sets out the amendments to IPSAS Standards, including the summary of changes:

IPSAS Standards and Chapters in the Conceptual Framework	Summary of Change
Chapter 2: Objectives and Users of General Purpose Financial Reporting and Chapter 3: Qualitative Characteristics of the Conceptual Framework	The amendments clarify that decisions about materiality are intended to reflect the information needs of the primary users of general-purpose financial reports instead of all users. (See Part 1)
IPSAS 1, *Presentation of Financial Statements*	The amendments: • Align materiality guidance across IPSAS Standards with the Conceptual Framework; and • Introduce new guidance to help entities make materiality judgments aligned with the *Definition of Material* (Amendments to IAS 1 and IAS 8) published by the International Accounting Standards Board (IASB) in October 2018. (See Part 2)
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	The amendments replace the description of materiality in IPSAS 3 with a cross-reference to the definition of material in IPSAS 1. (See Part 3)
IPSAS 14, *Events after the Reporting Date;* IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets;* IPSAS 20, *Related Party Disclosures;* IPSAS 43, *Social Benefits*; and IPSAS 45, *Property, Plant, and Equipment.*	The amendments aligned materiality guidance in the relevant IPSAS Standards with the definition of material and new guidance included in IPSAS 1 by this pronouncement. (See Part 4)

AMENDMENT: PART 1 – AMENDMENTS TO THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

Amendments to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Paragraphs 2.4 (footnote is added) and 3.32 are amended. New text is underlined, and deleted text is struck through.

…

Chapter 2: Objectives and Users of General Purpose Financial Reporting

…

Users of General Purpose Financial Reports

…

2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as "service recipients and resource providers", unless identified otherwise).[1]

…

Chapter 3: Qualitative Characteristics

…

Constraints on Information Included in General Purpose Financial Reports

Materiality

…

3.32. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

…

Basis for Conclusions

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

…

[1] Throughout the Conceptual Framework, the terms 'primary users' and 'users' refer to those service recipients and their representatives and resource providers and their representatives who must rely on general purpose financial reports for much of the financial information they need.

Constraints on Information Included in General Purpose Financial Reports

Materiality

…

Revision in 2025

BC3.32I In December 2024, the IPSASB decided to review the consistency of the description of materiality in the Conceptual Framework to enhance the clarity of application. The IPSASB noted that the description of materiality refers to users. This term could be interpreted broader than the scope of financial reporting, which is the information needs of primary users, as described in paragraph 1.7 of the Conceptual Framework. For consistency purposes, the IPSASB decided to clarify that the users referred to in the description of materiality are the primary users of GPFRs, as opposed to other users.

BC3.32J During the development of this pronouncement, the IPSASB decided to add 'primary' ahead of 'users' in the description of materiality in paragraph 3.32, emphasizing that the decisions about materiality are intended to reflect the information needs of primary users and not of other users. This is consistent with paragraphs 2.4 and 2.6 of the Conceptual Framework, which describe that other users may benefit from the information in GPFRs; however, these are explicitly prepared to respond to the information needs of primary users.

BC3.32K The IPSASB also decided to add a footnote to paragraph 2.4 stating that "throughout the Conceptual Framework, the terms 'primary users' and 'users' refer to those service recipients and their representatives and resource providers and their representatives who rely on GPFRs for much of the financial information they need." The addition of the footnote avoids the need to change every individual instance of the term 'users' to 'primary users' throughout the Conceptual Framework.

BC3.32L In May 2025, the IPSASB published Exposure Draft (ED) 93, *Definition of Material* (Amendments to IPSAS 1, IPSAS 3 and the Conceptual Framework). The proposal to clarify that the users referred to in the description of materiality are the primary users of GPFRs, as opposed to other users, was strongly supported. Some respondents raised concerns, such as:

(a) Believe that general purpose financial reports should serve the information needs of all users, not just primary users;

(b) Suggest revisions to the materiality description beyond this limited scope project;

(c) Recommend that each instance of the term 'users' should be qualified with 'primary' as appropriate, instead of inserting a footnote in paragraph 2.4; and

(d) Note that these amendments alone will not affect current practice, and requests the development of guidance to assist entities in making materiality judgments.

BC3.32M The IPSASB considered the issues raised by these respondents and decided to proceed with its proposals because:

(a) The description of materiality was recently consulted in ED 81, Conceptual Framework Update: Chapter 3, *Qualitative Characteristics* and Chapter 5, *Elements in Financial Statements* (see BC3.32A to BC3.32H). Respondents to ED 81 supported the proposals to add 'obscuring information' as a further factor to 'omitting or misstating information' and softening of the threshold for entities to determine when information is material. Therefore, the IPSASB limited the *Making Materiality Judgments* project's scope in the Conceptual Framework to clarify that an entity needs to focus on the information needs of primary users of general-purpose financial reports instead of all users when making materiality judgments.

(b) A footnote was added to acknowledge that the term ‘users' refers to 'primary users’ throughout the Conceptual Framework, as per the description of ‘primary users’ in paragraph 2.4, which reads 'those service recipients and their representatives and resource providers and their representatives who rely on GPFRs for much of the financial information they need'. The IPSASB noted that in instances where the term ‘users’ refers to users other than ‘primary users’, the context within the paragraph allows the reader to interpret the meaning of the term appropriately.

…

AMENDMENT: PART 2 – AMENDMENTS TO IPSAS 1, PRESENTATION OF FINANCIAL STATEMENTS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 7 and 13 are amended. Paragraphs 12A, 13A, and 153R are added. New text is underlined and deleted text is struck through.

…

Definitions

7. …

Material: ~~Omissions~~ ~~or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.~~ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial statements prepared for that reporting period.

…

Materiality

12A. Materiality depends on the nature and amount of the item judged in the particular circumstances of each entity. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) Information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) Information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) Dissimilar items, transactions or other events are inappropriately aggregated;

(d) Similar items, transactions or other events are inappropriately disaggregated; and

(e) The understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

13. Assessing whether information ~~an omission or misstatement~~ could reasonably be expected to influence the discharge of accountability by the entity, or decisions of made by primary users of a specific reporting entity's general purpose financial statements, ~~and so be material,~~ requires an entity to consider ~~consideration of~~ the characteristics of those users while also considering the entity's own circumstances. ~~Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting, and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.~~

13A. Many existing and potential service recipients and their representatives and resource providers and their representatives cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of public sector programs and operations and who review and analyze the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

…

Effective Date and Transition

Effective Date

…

153R. **Paragraphs 7 and 13 are amended and paragraphs 12A and 13A are added by *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in October 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 1.

…

Revision of IPSAS 1 as a result of *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) issued in October 2025

BC40. In December 2024, the IPSASB decided that the definition of material in IPSAS 1 should be reviewed for consistency with the Conceptual Framework. The IPSASB noted that the description of materiality in the Conceptual Framework differed from the definition of material in IPSAS 1.

BC41. The IPSASB noted that the differences between the description of materiality in the Conceptual Framework and the definition of material in IPSAS 1 could imply that the IPSASB intended these to have different meanings and be applied differently in practice. The IPSASB discussed that the description of materiality was revised with the update of the Conceptual Framework in 2023, specifically: obscuring information was added as a materiality factor, and the materiality threshold was softened. The IPSASB agreed that these updates to the Conceptual Framework should be reflected throughout IPSAS Standards.

BC42. The IPSASB also reviewed the revisions to IAS 1, *Presentation of Financial Statements*, included in *Definition of Material (*Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018, and the IASB's rationale for making these amendments as outlined in its Basis for Conclusions. The IPSASB supported aligning the definition of material in IPSAS 1 with the IASB's definition, while adapting it for the public sector context. To reflect the difference in the public sector, the definition of material in IPSAS 1 includes 'discharge of accountability by the entity'. It is therefore not fully aligned with the definition in IAS1 but remains consistent with the Conceptual Framework.

Amendments to the definition of material

BC43. During the development of this pronouncement, the IPSASB decided to align the definition of material in IPSAS 1 with the description of materiality in the Conceptual Framework. The IPSASB discussed that this is

appropriate, as the Conceptual Framework establishes the concepts to be applied in developing IPSAS Standards. Such amendments include:

(a) Add obscuring information as an additional materiality factor because the inclusion of immaterial disclosures can have a negative impact on primary users, rather than just being unnecessary;

(b) Soften the materiality threshold from 'could influence' to 'could reasonably be expected to influence' because it imposes a more realistic expectation on preparers' assessment of materiality, as almost anything 'could' influence the decision of primary users;

(c) Add 'discharge of accountability' because the provision of information in GPFSs should enable primary users to hold the entity accountable for the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations; and

(d) Add 'primary' ahead of users because it emphasizes that the decisions about materiality are intended to reflect primary users' information needs and not all users.

BC44. Additionally, aligning the definition of material with the Conceptual Framework will:

(a) Ensure consistent application of materiality by entities when making materiality judgments in the preparation of financial statements in accordance with IPSAS Standards; and

(b) Align the definition of material with IAS 1 *Presentation of Financial Statements*, consistent with the IASB's *Definition of Material* (Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018.

Amendment to the clarification accompanying the definition of material

BC45. The IPSASB reviewed the revisions to IAS 1 *Presentation of Financial Statements*, included in *Definition of Material* (Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments to the clarification accompanying the definition of material.

Other Amendments

BC46. The amendments to the definition of material in IPSAS 1 are not considered to be substantive because these align the definition of material in IPSAS 1 with existing guidance in the Conceptual Framework. The IPSASB consequently concluded that amendments to other requirements in IPSAS Standards are unnecessary, other than to update the definition of material where it is quoted or referred to directly.

BC47. The IPSASB decided it is unnecessary to change all instances of 'users' to 'primary users' in IPSAS Standards because these terms are similar in that both refer to those service recipients and their representatives, and resource providers and their representatives who must rely on general purpose financial reports for much of the financial information they need.

AMENDMENT: PART 3 – AMENDMENTS TO IPSAS 3, ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

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

Paragraph 7 is amended, paragraph 8 and its subheading are deleted, and paragraph 59I is added. New text is underlined and deleted text is struck through.

…

Definitions

…

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

…

The term Material is defined in IPSAS 1 and is used in this Standard with the same meaning as in IPSAS 1.

~~**Materiality**~~ [Deleted]

8. ~~Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions~~. [Deleted]

…

Effective Date

…

59I **Paragraph 7 was amended, and paragraph 8 and its subheading were deleted by *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in October 2025. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies this amendment for an earlier period, it shall disclose that fact. An entity shall apply this amendment when it applies the amendments to the definition of material in paragraph 7 of IPSAS 1.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3.

…

Revision of IPSAS 3 as a result of *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) issued in [Month and Year]

BC22. During the development of this pronouncement, the IPSASB decided to replace the description of materiality in IPSAS 3 with a cross-reference to IPSAS 1, *Presentation of Financial Statements*, which includes the definition of material and explanatory guidance. This avoids the duplication of the definition of material in IPSAS Standards.

AMENDMENT: PART 4 – AMENDMENTS TO OTHER IPSAS STANDARDS

Amendments to IPSAS 14, *Events after the Reporting Date*

Paragraphs 5 and 30 are amended, and paragraph 32H is added. New text is underlined, and deleted text is struck through.

…

Definitions

…

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

…

The term Material is defined in IPSAS 1, *Presentation of Financial Statements* and is used in this Standard with the same meaning as in IPSAS 1.

…

Disclosure

…

Disclosure of Non-adjusting Events after the Reporting Date

30. **If non-adjusting events after the reporting date are material, non-disclosure could reasonably be expected to influence the discharge of accountability by the entity, or ~~the economic~~ decisions of that the primary users of general purpose financial statements ~~taken~~ make on the basis of the entity's general purpose financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:**

(a) The nature of the event; and

(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

…

Effective Date

…

32H. **Paragraphs 5 and 30 were amended by *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in October 2025. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies this amendment for an earlier period, it shall disclose that fact. An entity shall apply this amendment when it applies the amendments to the definition of material in paragraph 7 of IPSAS 1.**

…

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 18 and 87 are amended, and paragraph 111Q is added. New text is underlined, and deleted text is struck through.

…

Definitions

…

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

…

The term Material is defined in IPSAS 1, *Presentation of Financial Statements* and is used in this Standard with the same meaning as in IPSAS 1.

…

Application of the Recognition and Measurement Rules

…

Restructuring

…

87. A decision by management or the governing body to restructure, taken before the reporting date, does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) Started to implement the restructuring plan; or

(b) Announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure may be required under IPSAS 14, Events after the Reporting Date, if the restructuring is material and non-disclosure could reasonably be expected to influence the discharge of accountability by the entity, or ~~the economic~~ decisions ~~of~~ that the primary users of general purpose financial statements make on the basis of the entity's general purpose ~~taken on the~~ financial statements.

…

Effective Date

…

111Q. **Paragraphs 18, and 87 were amended by *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in October 2025. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies this amendment for an earlier period, it shall disclose that fact. An entity shall apply this amendment when it applies the amendments to the definition of material in paragraph 7 of IPSAS 1.**

…

Amendments to IPSAS 20, *Related Party Disclosures*

Paragraphs 4 and 22 are amended, and paragraph 42F is added. New text is underlined, and deleted text is struck through.

…

Definitions

…

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

…

The term Material is defined in IPSAS 1, *Presentation of Financial Statements* and is used in this Standard with the same meaning as in IPSAS 1.

…

Materiality

22. IPSAS 1 requires the separate disclosure of material items. The materiality of an item is determined with reference to the nature or ~~size~~amount of that item. When assessing the materiality of related party transactions, the nature of the relationship between the reporting entity and the related party, and the nature of the transaction, may mean that a transaction is material regardless of its ~~size~~amount.

…

Effective Date

…

42F. **Paragraphs 4 and 22 were amended by *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework), issued in October 2025. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies this amendment for an earlier period, it shall disclose that fact. An entity shall apply this amendment when it applies the amendments to the definition of material in paragraph 7 of IPSAS 1.**

…

Amendments to IPSAS 42, *Social Benefits*

Paragraph IG5 is amended. New text is underlined, and deleted text is struck through.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 42.

…

Recognition and Measurement of Liabilities and Expenses in IPSAS 42

…

IG5. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 1, *Presentation of Financial Statements* ~~IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*~~

…

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraphs IG12(a) and IG12(c) are amended. New text is underlined, and deleted text is struck through.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 45.

…

Capitalization Threshold for Costs

What factors should be considered when choosing a capitalization threshold?

…

IG12. Factors to consider when setting capitalization thresholds include:

(a) **Meeting the information needs of primary users**: Capitalization thresholds should result in reported information that meets the needs of ~~external~~ primary users of the financial statements. Capitalization thresholds should result in reported amounts for recognized assets that achieve the qualitative characteristics, including relevance and representational faithfulness.

...

(c) **Cost-benefit:** When capitalization thresholds are set at appropriate levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting primary users' needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff – without any benefit.

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Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	11 December 2025
Subject:	***Amendments to PBE Standards: Specific IFRIC Interpretations***
Date:	27 November 2025
Prepared by:	Tereza Bublikova
Through:	Gali Slyuzberg, Michelle Lombaard

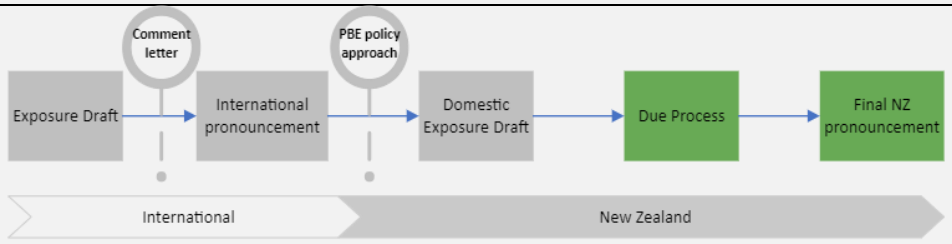
☒ **Action Required** ☐ **For Information Purposes Only**

COVER SHEET

Project overview

Project purpose	To clarify the application of existing requirements in PBE Standards by incorporating the IPSASB's recent narrow-scope amendments, *Amendments to IPSAS: Specific IFRIC Interpretations*, which introduce certain IFRIC Interpretation standards into IPSAS.
Cost/benefit considerations	These amendments – being minor clarifications or amendments to address minor inconsistencies – are expected to assist preparers in the application of the amended standards and are not expected to be costly to implement.
Project priority	**Low** Some of the IFRIC Interpretations are already included in PBE Standards and others have limited applicability to New Zealand.

Overview of agenda item

Project status	
Board action required at this meeting	**Low complexity** • **APPROVE** for issue *Amendments to PBE Standards: Specific IFRIC Interpretations*; and • **APPROVE** the accompanying signing memo.

Purpose and introduction[1]

1. The purpose of this memo is to seek the Board's approval to issue *Amendments to PBE Standards: Specific IFRIC Interpretations* and the accompanying signing memorandum.

Recommendations

2. We recommend that the Board:

   (a) **APPROVE** for issue *Amendments to PBE Standards: Specific IFRIC Interpretations*:

   (b) **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the standard.

Structure of this memo

3. The remaining sections in this memo are:

   (a) Background

   (b) Summary of the amendments

   (c) Results of consultations

   (d) Cost/benefit considerations

   (e) Due process and other matters

Background

4. In January 2025, the International Public Sector Accounting Standards Board (IPSASB) issued the amending standard *Amendments to IPSAS: Specific IFRIC Interpretations*, which clarifies the application of certain existing IPSAS principles by adding guidance aligned with certain IFRIC Interpretations (which form part of the IFRS Accounting Standards suite) into IPSAS.

5. The IPSASB pronouncement adds guidance from the following IFRIC interpretations into IPSAS:

   - IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities;*
   - IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;*
   - IFRIC 7*, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies;* and
   - IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

6. In New Zealand, guidance based on IFRIC 1 and IFRIC 5 is already included in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, but there are some differences in wording (compared to the IPSASB's wording) and illustrative

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

examples are excluded. Guidance based on IFRIC 7 and IFRIC 14 is not included in PBE Standards.

7. The NZASB agreed to propose amendments to improve the existing IFRIC 1-based and IFRIC 5-based guidance in Appendices A and B of PBE IPSAS 19 in line with the abovementioned IPSASB amendments, and to add into PBE Standards the IPSASB's guidance based on IFRIC 7 and IFRIC 14. The Exposure Draft *Amendments to PBE Standards: Specific IFRIC Interpretations* (ED) was issued for public consultation in September 2025.

Summary of the amendments

8. The ED contains the following amendments to PBE Standards:

   - Amendments to PBE IPSAS 19 clarify the accounting for decommissioning, restoration and similar liabilities in Appendix A of PBE IPSAS 19, as well as the scope of Appendix B of PBE IPSAS 19, which relates to decommissioning, restoration and environmental rehabilitation funds. Those amendments also add two examples illustrating application of the Appendix A of PBE IPSAS 19.

   - Amendments to PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies* add Appendix A *Applying the Restatement Approach under PBE IPSAS 10 Financial Reporting in Hyperinflationary Economies,* which clarifies how an entity restates its financial statements in the first year of hyperinflation. Those amendments are closely aligned with NZ IFRIC 7.

   - Amendments to PBE IPSAS 39 *Employee Benefits* add Appendix AA *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* which clarifies how an entity should consider limits on the defined benefit asset and minimum funding requirements when accounting for its involvement in defined benefit plans. Two examples illustrating application of the Appendix AA of PBE IPSAS 39 are added. Those amendments are closely aligned with NZ IFRIC 14.

9. The amendments are aligned with the abovementioned IPSASB amendments, with minor New Zealand modifications (these are explained in Agenda Item 7.1d).

Mandatory date

10. The mandatory date of these amendments is 1 January 2027 with application permitted for an 'early adoption accounting period'.

RDR Concessions

11. The amendments do not introduce new RDR concessions into PBE Standards. The new disclosure requirements introduced by amendments to PBE IPSAS 39 are considered necessary for Tier 2 PBEs (as agreed with the Board when developing the Exposure Drafts in August 2025).

Results of consultations

12. As a reminder: In 2024, the NZASB commented on IPSASB's ED 89 *Amendments to Consider IFRIC Interpretations* and the IPSASB reflected NZASB's recommendations in their final pronouncements.

13. The NZASB ED 2025-9 was published on the XRB's website on 1 September 2025, with comments closing on 1 December 2025. We included a link to the ED in September to November 2025 Accounting Alerts to raise awareness among New Zealand constituents.

14. As at the date of this memo, the NZASB has not received any comments from constituents on the ED and has no indication that any will be provided. As a result, the final pronouncements are the same as those included in the ED.

15. Staff will provide the Board with a verbal update if any comments are received between the date of this paper and the end of the comment period.

Cost/benefit considerations

16. Introducing these clarifications to the PBE Standards is expected to provide improved consistency in the application of the PBE Standards and alignment of PBE Standards and NZ IFRS Standards for mixed group entities, including increased harmonisation with Australia (given Australian PBEs report under IFRS-based standards).

17. As the amendments are clarifying in nature, narrow in scope, based on existing NZ IFRS pronouncements, and raised no objections in our consultation, we expect them to result in minimal implementation costs.

18. Based on our analysis above we consider the benefits of issuing these pronouncements outweigh the costs.

Due process and other matters

19. *Amendments to PBE Standards: Specific IFRIC Interpretations* is based on pronouncements previously issued by the IPSASB and IASB. Those pronouncements were subject to the IPSASB's and IASB's respective due processes.

20. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

21. In accordance with section 22(2) of the Financial Reporting Act 2013, we have considered the Final Standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

22. The final drafts of the amending standards *Amendments to PBE Standards: Specific IFRIC Interpretations* is attached as agenda item 7.1b. The draft signing memorandums from the Chair of the NZASB to the Chair of the XRB Board is attached as agenda items 7.1d.

Questions for the Board:

Q1. Does the Board **APPROVE** for issue *Amendments to PBE Standards: Specific IFRIC Interpretations*?

Q2. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue the amending standard?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	John Kensington, Chair External Reporting Board
Subject:	**Amendments to PBE Standards: Specific IFRIC Interpretations**
Date:	11 December 2025
Prepared by:	Carolyn Cordery, Chair NZASB
Through:	NZASB, Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Amendments to PBE Standards: Specific IFRIC Interpretations.*

2. This amending standard is based on *Amendments to IPSAS: Specific IFRIC Interpretations*, issued by the International Public Sector Accounting Standards Board (IPSASB) in January 2025. This in turn is aligned with the requirements in the following IFRIC Interpretations, issued by the International Accounting Standards Board (IASB) as part of the IFRS Accounting Standards suite and adopted for New Zealand for-profit entities:

   - IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*;
   - IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*;
   - IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*; and
   - IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

3. In New Zealand, guidance based on IFRIC 1 and IFRIC 5 is already included in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, but there are some differences in wording and illustrative examples are excluded. Guidance based on IFRIC 7 and IFRIC 14 is not included in PBE Standards.

4. The NZASB agreed to amend PBE Standards in line with the IPSASB amendments – to improve the existing IFRIC 1-based and IFRIC 5-based guidance in PBE IPSAS 19, and to add into PBE Standards the IPSASB's guidance based on IFRIC 7 and IFRIC 14, which was considered appropriate for New Zealand public benefit entities (PBEs).

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Summary of the amendments

Amendments to PBE IPSAS 19 related to IFRIC 1

5. IFRIC 1 clarifies how an entity should account for specific changes in estimates of existing liabilities to dismantle, remove and restore a property, plant and equipment asset.

6. The requirements of NZ IFRIC 1 are already included in PBE IPSAS 19 as Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. However, following the issuance of the abovementioned IPSASBs' pronouncement, the NZASB decided to:

   (a) Amend Appendix A to clarify that when there is a change in a decommissioning, restoration or similar liability and the entity measures the related asset using the revaluation model, the entity accounts for the increase or decrease in the liability (through other comprehensive revenue and expense or surplus or deficit, as required by paragraph A6 of PBE IPSAS 19), rather than an increase or decrease in the carrying amount of a class of assets related to the liability; and

   (b) Introduce two examples illustrating the application of Appendix A.

7. Those amendments are equivalent to the IPSASB pronouncement, except that:

   (a) The amendments refer to "cost model" and "revaluation model" (in line with PBE IPSAS 17 *Property, Plant, and Equipment* and PBE IPSAS 31 *Intangible Assets*), while IPSASB pronouncements refer to "historical cost model" or "current value model" (in line with IPSAS 45 *Property, Plant, and Equipment* and IPSAS 31); [2]

   (b) Reflect the concept of "other comprehensive revenue and expense" in PBE Standards which has not been adopted by the IPSASB; and

   (c) The illustrative examples refer to geothermal power plant instead of a nuclear one, for greater relevance in the New Zealand context (since there are no nuclear power plants in New Zealand).

Amendments to PBE IPSAS 19 related to IFRIC 5

8. IFRIC 5 clarifies how an entity that is a contributor to a decommissioning fund should account for its obligation to pay decommissioning costs and its related interest in that fund.

9. Requirements of NZ IFRIC 5 are already included in PBE IPSAS 19 as Appendix B *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.* However, Introduction and Scope paragraphs are not included.

10. Following the issuance of the IPSASBs' pronouncement, the NZASB decided to introduce those paragraphs to clarify that the Appendix B applies to decommissioning funds that are administered separately and where contributor's right to access the assets is restricted. Those amendments are equivalent to the IPSASB pronouncement.

[2] The difference in terminology is as a result of IPSAS 46 *Measurement* and related IPSASB pronouncements, which are currently not incorporated into PBE Standards.

Amendments to PBE IPSAS 10 related to IFRIC 7

11. The amending standard *Amendments to PBE Standards: Specific IFRIC Interpretations* adds Appendix A *Applying the Restatement Approach under PBE IPSAS 10 Financial Reporting in Hyperinflationary Economies* to PBE IPSAS *10 Financial Reporting in Hyperinflationary Economies.* This appendix clarifies how an entity restates its financial statements in the first year of hyperinflation.

12. Those amendments are equivalent to the IPSASB pronouncement, except that more detailed guidance to the restatement of deferred tax items is provided. This guidance reflects PBE IAS 12 *Income Taxes* requirements and is aligned with NZ IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*. As there is no income tax standard in the IPSAS suite, the IPSASB pronouncement refers generally to 'national or international accounting standards dealing with income taxes'.

Amendments to PBE IPSAS 39 related to IFRIC 14

13. The amending standard *Amendments to PBE Standards: Specific IFRIC Interpretations* adds Appendix AA *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* to *PBE IPSAS 39 Employee Benefits*. This appendix clarifies how employer entities should account for their involvement in defined benefit plans, specifically:

    (a) How certain aspects of the "asset ceiling" definition should be interpreted;

    (b) How a minimum funding requirement might affect the availability of reductions in future contributions in respect of the "asset ceiling" definition; and

    (c) When a minimum funding requirement might give rise to a liability.

14. The amending standard further adds two examples illustrating application of the Appendix AA.

15. Those amendments are equivalent to the IPSASB pronouncement and are closely aligned with NZ IFRIC 14.

Benefits to New Zealand constituents

16. Introducing the abovementioned clarifications into the PBE Standards is expected to provide improved consistency in the application of the PBE Standards, as well as alignment of PBE Standards and NZ IFRS Standards, which is beneficial for 'mixed group' entities (i.e. entities containing both PBEs and for-profit entities). The amendments also increase harmonisation with Australia (given Australian PBEs report under IFRS-based standards).

17. As the amendments are clarifying in nature, narrow in scope, based on existing NZ IFRS pronouncements, and raised no objections in our consultation, we do not expect any PBE to incur significant costs by bringing these amendments into the PBE Standards.

Due process

18. *Amendments to PBE Standards: Specific IFRIC Interpretations* is based on pronouncements previously issued by the IPSASB, which are in turn based on pronouncements issued by the IASB. Those amendments were subject to the IPSASB's and IASB's respective due processes.

19. The IPSASB issued ED 89 *Amendments to Consider IFRIC Interpretations* in April 2024. The NZASB issued the IPSASB ED for comment in New Zealand around the same time. Comments were due to the NZASB by 27 May 2024 and to the IPSASB by 17 June 2024.

20. The IPSASB received 17 comment letters from its world-wide constituents including comment letter from the NZASB. The IPSASB did not receive comments from any other New Zealand stakeholders on ED 89, nor did the NZASB. The IPSASB reflected all NZASB's recommendations in their final pronouncements.

21. Following its consideration of comments from constituents, the IPSASB reviewed the due process steps that it had taken since the publication of ED 89 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IPSASB's December 2024 meeting.[3]

22. The IPSASB issued *Amendments to IPSAS Standards: Specific IFRIC Interpretations* in January 2025. This amending standard is effective for annual periods beginning on or after 1 January 2026 with early application encouraged.

23. Following the application of the PBE Policy Approach, the NZASB approved the NZASB ED 2025-9 *Amendments to PBE Standards: Specific IFRIC Interpretations* for issue at its August 2025 meeting. The ED was published on the XRB's website on 1 September 2025, with comments due on 1 December 2025. We included a link to the ED in July to November 2025 Accounting Alerts to raise awareness among New Zealand constituents.

24. The NZASB did not receive any comments from constituents on the ED. As a result, the final amending standard is identical to the proposals included in the ED.

25. The NZASB approved the amending standard *Amendments to PBE Standards: Specific IFRIC Interpretations* in December 2025. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

26. In accordance with section 22(2) of the Financial Reporting Act 2013, the NZASB considers the amending standard does not include requirements that would result in the disclosure of personal information. Therefore, no consultation with the Privacy Commissioner is required.

Reduced Disclosure Regime (RDR) concessions

27. This amending standard introduces new disclosure requirement to PBE IPSAS 39, stating that: "*In accordance with PBE IPSAS 1 Presentation of Financial Reports, the entity shall disclose information about the key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available*[4]."

[3] A summary of the matters considered at the IPSASB's December 2024 meeting is available at: Approved Minutes December 2024

[4] The basis used to determine the amount of the economic benefit available affects measurement of the defined benefit asset (or liability).

28. The NZASB agreed not to provide RDR concession for those disclosures, noting that:

    - The required disclosures relate to significant estimates and judgements, representing contextual information important for users to understanding the defined benefit asset or liability balance in the financial statements;
    - The required disclosures are consistent with the requirements of paragraph 140 of PBE IPSAS 1 *Presentation of Financial Reports* which does not have RDR concessions; and
    - The equivalent for-profit standard NZ IFRIC 14 does not provide any RDR concessions, and the NZASB has not found any PBE-specific reason for providing RDR concessions to Tier 2 PBEs.

29. As such, the standard does not introduce any new RDR concessions for Tier 2 PBEs.

Consistency with XRB Financial Reporting Strategy

30. This amending standard will be applicable for Tier 1 and Tier 2 PBEs.

31. The issuance of this standard is consistent with the current Financial Reporting Strategy. It aligns with international standards issued by the IPSASB and is consistent with the Accounting Standards Framework.

32. Australia does not adopt IPSASB standards but apply IFRS-based standards to their public sector and not-for-profit entities. As the IPSASB requirements are based on the IFRS Accounting Standards, the issuance of this standard will facilitate increased harmonisation with IFRS Accounting Standards and Australia.

Commencement and application date

33. *Amendments to PBE Standards: Specific IFRIC Interpretations* takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending standard is expected to be published on [DATE] and take effect on [DATE].

34. An entity that is not an early adopter is required to apply the amending standard for accounting periods beginning on or after 1 January 2027.

35. The mandatory date is one year later than the IPSASB mandatory date due to the timing of the New Zealand consultation. We do not consider this to be an issue, given the very limited scope of the amendments.

36. Application is permitted for an 'early adoption accounting period' when that period begins before the mandatory date but has not ended or does not end before this amending standard takes effect. This is consistent with section 28 of the Financial Reporting Act 2013.

Other matters

37. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

38. The NZASB recommends that you sign the attached certificate of determination and approval certificate on behalf of the XRB Board.

Attachments

- *Amendments to PBE Standards: Specific IFRIC Interpretations*
- Certificate of Determination
- Approval Certificate

Carolyn Cordery
Chair, NZASB

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Memorandum

To:	NZASB Members
Meeting date:	11 December 2025
Subject:	**Staff guidance for the Tier 3 NFP Standard**
Date:	27 November 2025
Prepared by:	Alex Stainer
Through:	Nimash Bhikha, Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. This memo seeks the Board's feedback on frequently asked questions (FAQs) and guidance documents for incorporated societies developed by staff in respect of the Tier 3 NFP Standard.
2. These materials respond to queries arising from the application of the Tier 3 NFP Standard and in anticipation of a significant number of incorporated societies beginning to use this standard when they are introduced to the XRB Accounting Standards Framework.

Recommendations/ actions

3. The Board is asked to provide **FEEDBACK** on the proposed guidance intended to support the application of the Tier 3 NFP Standard.

Structure of this memo

4. The remaining sections of this memo include:
   (a) Background
   (b) Summary of FAQs and guidance developed
   (c) Considerations for the Board

Background

5. The new Tier 3 NFP Standard became mandatory for reporting periods beginning on or after 1 April 2024 and has replaced the previous Tier 3 Standard. Incorporated societies that have reregistered under the Incorporated Societies Act 2022 are also beginning to apply XRB Standards (including the new Tier 3 NFP Standard).
6. We note that the previous standard was accompanied by Explanatory Guidance (EG A5) which was a 64-page document that went line-by-line through the respective categories within the financial statements, and provided a detailed explanation of each item.
7. In respect of the new Tier 3 Standard, there are currently Tier 3 and 4 FAQs hosted on the XRB website that outline relevant considerations in respect of:
   - Going concern
   - Cash and accrual accounting

- Incorporated societies
- Accounting for GST
- Non-cash donations

8. A guidance document titled 'What's changed in the new Tier 3 Standard' is available on our website, and we have recently updated the Tier 3 template performance report, which includes guidance information for meeting certain requirements. Additionally, Charities Services have published a comprehensive guide on applying the Tier 3 Standard to which we provided feedback into.

9. While there is some guidance available, we have experienced an increase in queries from preparers applying the Tier 3 NFP Standard. Many of these queries reflect uncertainty and discomfort with applying judgements where the Standard does not provide explicit direction. We are also in regular correspondence with Charities Services in terms of the queries they are seeing in respect of the new Tier 3 Standard.

10. Staff have also received feedback indicating that the classification of some types of activities commonly undertaken by incorporated societies are difficult – particularly for revenue earned from activities that align with the society's purpose e.g. a car club, earning revenue from a series of organised car races.

11. As a result, we have developed a set of FAQs along with more targeted guidance for incorporated societies commencing first time application. Overall, the guidance aims to:

- Reduce the volume of recurring queries;
- Support incorporated societies in first time application of the Tier 3 NFP Standard; and
- Encourage preparers to apply judgement appropriately.

Summary of FAQs and guidance developed

FAQs developed

12. The FAQs address common queries arising from the application of the Tier 3 Not-for-Profit (NFP) Standard and aim to support consistent interpretation and practical implementation of the Standard.

13. The FAQs cover the following key areas:

#	FAQ Theme	Areas Covered
1	Applying the Tier 3 NFP Standard when guidance is absent	• Explains the decision-making hierarchy in paragraph 8 of the Standard. • Encourages use of judgement and to use the hierarchy to reference similar transactions, Tier 2 PBE Standards, and the PBE Conceptual Framework.
2	Classification of other cash accounts	• Discusses how to assess whether accounts like PayPal, Stripe, and brokerage accounts qualify as 'cash and short-term deposits'. • Highlights implications for the Statement of Cash Flows.
3	Revenue classification (particularly for incorporated societies)	• Gives general guidance for organisations to refer to paragraph A60 and related guidance in A61-A70 to classify revenue.

		• Discusses some key principles when classifying and presenting revenue in the performance report. • Provides an example of classifying revenue for incorporated societies when the revenue earning activity aligns with the society's purpose.
4	Depreciation	• Recycles guidance contained in EG A5 for the application of the previous Tier 3 Standard. • Acknowledges that entities currently depreciating their assets using the IRD's tax depreciation rates can continue to do so, if they reflect a reasonable estimate of the asset's useful life. • Acknowledges that for tax purposes buildings have not always been depreciated. • Explains that for the purposes of the Tier 3 Standard, buildings should always be depreciated, and that a IRD depreciation rate of 0% is not appropriate. • Highlights that land is the only asset class of property, plant and equipment that is not depreciated under the Tier 3 Standard.
5	First-Time Application and Transition to Tier 3	• Outlines the accrual-based nature of the Standard and required components of the performance report. • Explains transition options (general vs special provisions). • Highlights considerations such as interests in other entities and principal vs agent assessments.

14. These FAQs are intended to be added to the existing Tier 3 and 4 FAQs hosted on the XRB website. Each FAQ includes references to relevant paragraphs in the Standard to assist preparers in making informed decisions. The guidance is designed to be accessible and adaptable to a range of NFP contexts.

Additional guidance materials for incorporated societies

15. To further support the adoption of the Tier 3 NFP Standard by incorporated societies who will be adopting XRB standards for the first time once re-registering, staff have developed a series of guidance documents, highlighting relevant aspects for societies applying the Standard for the first time. The guidance incorporates some of the same material as the FAQs developed but focuses more on incorporated societies and on practical implementation.

16. The five topics covered are:

#	Topic	Aim
1	General overview of the Tier 3 NFP Standard	• A high-level introduction of the Standard's purpose, features, and what it generally requires.
2	Items to watch out for	• Highlights requirements for accounting for interests in other entities and principal versus agent outcomes.
3	Transition to Tier 3 NFP Standard	• Explains the transition process, including general and special provisions, and outlines what preparers need to consider when practically moving to using this Standard.
4	Classifying revenue and expenses	• Highlights the requirements for classifying revenue and expenses into categories outlined by the Standard.

		• Highlights that many incorporated societies may earn revenue from activities that are not strictly commercial or fundraising - where the activity may align with the society's purpose. • Provides an example of classifying revenue for incorporated societies when the revenue earning activity aligns with the society's purpose.
5	Assets and liabilities in Tier 3 NFP Standard	• Provides a brief overview of common assets and liabilities and some of the considerations when recording these in the performance report.

17. We intend to publish these materials specifically on the incorporated societies webpage under our resources section. We welcome the Board's feedback to ensure the guidance is framed at the correct level, and that it is clear, relevant, and fit for purpose for preparers of Tier 3 financial statements.

Considerations for the Board

18. The Board is invited to **PROVIDE FEEDBACK** on:

    (a) The clarity, usefulness, and scope of the guidance; and

    (b) Whether the guidance appropriately supports preparers and addresses the themes identified.

Question for the Board

Q1. Does the Board have any **FEEDBACK** on this memo or the FAQs or guidance developed by staff?

Attachments

- Proposed additional Tier 3 Standard FAQs
- Proposed Tier 3 Standard guidance for incorporated societies, including 5 separate guidance documents:
    - Overview of the Tier 3 Standard
    - Transition requirements
    - Things to watch out for
    - Assets and liabilities guide
    - Revenue and expenses guide

FAQs – Tier 3 NFP Standard

1. What if I cannot find guidance on a specific type of transaction or event in the Tier 3 NFP Standard?

If the Tier 3 Standard does not provide specific guidance for a transaction or event, you can follow the decision-making hierarchy outlined in paragraph 8 of the Tier 3 NFP Standard.

You will need to use your judgement and refer to the following sources, in this order:

1. **Guidance on similar transactions within the Tier 3 NFP Standard** – Look for how the Standard handles similar or related transactions.
2. **Tier 2 PBE Standards** – Check if Tier 2 PBE Standards offer guidance for the same or similar transactions.
3. **PBE Conceptual Framework** – Use definitions and concepts from the PBE Conceptual Framework, as long as they don't conflict with Tier 3 NFP Standard.

2. Are PayPal, Stripe, Portfolio or Brokerage cash accounts and other similar items treated as 'cash and short-term deposits' under the Tier 3 NFP Standard?

The Standard does not explicitly address whether these specific items are 'cash and short-term deposits'. As mentioned in Q1, the Standard provides guidance on what to do when a transaction is not explicitly addressed by the Standard, and the first step is to check for guidance on similar transactions in the Standard.

Accordingly, you can assess whether these items are 'cash and short-term deposits' based on their features, and whether these features are similar to the items that are explicitly included in 'cash and short-term deposits' in the Standard (paragraph A109 says that 'cash and short-term deposits includes petty cash, cheque or savings accounts, and deposits held at call or with a maturity of three months or less from the date of commencement).

Consider whether the account:

- Is used to facilitate transactions, like a bank account
- Can be used on demand to make cash payments
- Has no specified maturity date, i.e. the money can be transferred to the entity's bank account on demand
- Is not held as an investment (i.e. the account is held to facilitates transactions, rather to generate a return on the account itself)

While the classification in the Statement of Financial Position might seem minor, it can affect the Statement of Cash Flows. If the account is not reflected as 'cash and short-term deposits' any cash movements in the account will be excluded from the Statement of Cash Flows. This may affect the usefulness of your performance report.

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3. We are an incorporated society, how do we classify our revenue based on the Tier 3 NFP Standard?

When preparing your Statement of Financial Performance your society must classify revenue using the categories outlined in the Tier 3 NFP Standard.

- **Revenue categories – See Paragraph A60 in the Tier 3 NFP Standard**

Key rules for revenue classification

- **Do not combine or split categories in the Statement of Financial Performance**. If needed, you can provide more detail in the notes to the performance report.
- **Names of the categories can be changed**, provided that the separate categories are still maintained.
- **Some judgement may be required** in selecting the appropriate categories and in deciding whether to rename them.

If the revenue does not appear to match a category

When determining which category in paragraph A60 applies, have a look at the guidance in paragraphs A61–A70. They may help you to apply your judgement in determining which category fits best. If it remains unclear, consider whether this activity directly helped achieve the society's purpose, as per paragraph A64.

- Commercial and fundraising activities often raise funds to support an organisations service delivery or purpose – but they may not deliver on an organisation's purpose in themselves.
- Activities that deliver an organisation's purpose sometimes do not generate revenue in the charitable sector, but it can be common for incorporated societies to generate revenue from these activities.

For example, a sports club might earn revenue from:

- Tournaments
- Skills programs
- Competitions
- Prize-giving events

These activities:

- May be separate from activities covered by membership fees/subscriptions
- Align with the club's purpose (e.g. promoting participation in a sport)
- May not be run as a commercial or fundraising activity, but still generate revenue

If the activity relates to "sales of goods or services which directly, in themselves, contribute to the achievement of an entity's stated purposes and are not related to a service delivery grants/contract", as per paragraph A64, use the category:

Non-government service delivery grants/contracts

You may rename this category to make it clearer for readers. See Paragraph A64 of the Tier 3 NFP Standard for guidance.

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Similarly, if you are using the Tier 4 NFP Standard this type of revenue can be classified to 'service delivery grants/contracts'.

4. What do I need to think about when considering depreciation?

Depreciation may be a challenging area of your financial statements, given the IRD rules which must also be followed if you file tax returns. It is important to recognise the differences between depreciation for tax compliance purposes and for accounting purposes and be open to having to make adjustments to the IRD tax depreciation where it is appropriate to better reflect the accounting and value within your assets in your financial statements.

Do land and buildings depreciate?
Land should not be depreciated under the Tier 3 Standard (see Table 3, Paragraph A121 of the Tier 3 Standard), but buildings should be depreciated under the Tier 3 Standard (see Q3 below).

Can we continue using IRD's tax depreciation rates for our assets?
Yes, entities currently using IRD's tax depreciation rates may continue to do so, provided those rates reflect a reasonable estimate of the asset's useful life.

Are IRD rates always considered appropriate?
Not necessarily. For example, when the IRD depreciation rate was zero for buildings, this depreciation rate was not considered appropriate for accounting purposes because buildings generally have a finite useful life.

What should we do if IRD rates do not reflect the asset's useful life?
You should adjust the depreciation rate to ensure it reasonably reflects the actual useful life of the asset.

5. What do I need to think about when I look to adopt the Tier 3 NFP Standard for the first time?

The Tier 3 NFP Standard is an accrual-based standard. It requires you to record transactions as they occur, not necessarily when money comes in/out of your bank account. This will mean recording items such as debtors (accounts receivable), creditors (accounts payable) and other non-cash items like depreciation.

You will need to prepare the following components:

- Entity information
- Statement of Service Performance
- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash Flows
- Statement of Accounting Policies
- Notes to the Performance Report

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In addition, there are general format and presentation requirements.

For instance, there are prescribed categories for revenue, expenses, assets, liabilities, cash receipts and cash payments – where you must present your items in line with the categories of the Standard in each of the respective Statements.

How do we transition to the Tier 3 NFP Standard?

If you are applying the Tier 3 NFP Standard for the first time, it is important to understand the transition requirements. These requirements set out the options for when the Tier 3 NFP Standard is applied from (i.e. whether to apply it to both the current year and previous year or just to the current year).

Where to Start

Refer to Appendix C of the Tier 3 NFP Standard for full transition requirements.

Two Transition Approaches

You can typically choose between two main approaches when preparing your **first set of financial statements** under the Tier 3 NFP Standard:

1. General Provisions (Paragraphs C3–C6)

- Apply the Tier 3 NFP Standard to **both the current and prior year**.
- Comparative information is included.
- This approach provides consistency across years.

2. Special Provisions (Paragraphs C7–C10)

- Apply the Tier 3 Standard to the **current year only**.
- No comparative information is required (unless you are transitioning from Tier 2 PBE Standards – see paragraph C9).
- You must attach your **previous year's financial statements and accounting policies** (unless you are transitioning from Tier 2 PBE Standards – see paragraph C9).
- This approach can simplify first-time application

Choosing the Right Approach

Your choice may depend on your organisation's specific circumstances and the preferences of the readers of your performance report.

Is there anything we should watch out for?

Interests in other entities

When applying the Tier 3 NFP Standard, you are required to identify your organisation's interests in other entities (i.e. whether your organisation controls, jointly controls or has significant influence over other entities) and assess whether any of those interests result in you needing to consolidate controlled entities or account for an investment in an associate or a joint arrangement.

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If you have these interests, you will need to use the relevant Tier 2 PBE Standards.

- ***Consolidation (where you control other entities) –*** Consolidation is the process of combining financial information across all entities within a group to present a single set of financial statements. Your society will be required to consolidate if it 'controls' any other entities. Refer to the applicable Tier 2 accounting standard (PBE IPSAS 35).
- ***Joint arrangements –*** A joint arrangement is an arrangement of which two or more parties have "joint control". Refer to the applicable Tier 2 accounting standard (PBE IPSAS 37).
- ***Investments in Associates –*** An associate is an entity you have significant influence over by way of your investment. Refer to the applicable Tier 2 accounting standard (PBE IPSAS 36).

For further information on joint arrangements, investments in associates and consolidation, we recommend viewing **Explanatory Guide A8** and **Explanatory Guide A9.**

Principal vs Agent transactions

If your society collects revenue and incurs expenses on behalf of another party, you must consider whether you are acting as the principal or as an agent in the transaction.

If you are acting as an agent, you should not record the amounts collected or paid on behalf of another party in your Statement of Financial Performance or Cash Flows.

- Any amount collected on behalf of another party and not yet returned to the other party should be recorded in the Statement of Financial Position as a payable.
- If you earn a margin while acting as an agent, the margin earned should be recorded as a single item in revenue.
- The same approach should be taken in the Statement of Cash Flows.

For further information, see sections Paragraphs A101-104 in section 5, paragraphs A58 and A88 in Section 4 and Paragraph A230 in section 9 of the Tier 3 NFP Standard.

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EXTERNAL REPORTING BOARD

Tier 3 Not-For-Profit Accounting Standard

Introduction for Incorporated Societies

Staff Guidance

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Contents

Introducing the Tier 3 Not-For-Profit Standard	3
What changes when applying the Tier 3 NFP Standard?	4
Key concepts and terms	5
Statement of Service Performance Information	**6**
Other Resources	**7**

DRAFT

Introducing the Tier 3 Not-For-Profit Accounting Standard

With the introduction of the new Incorporated Societies Act 2022 (the new Act), incorporated societies that do not meet the 'small society' criteria, must apply Accounting Standards issued by the External Reporting Board (XRB). These requirements will take effect once a society has reregistered under the new Act.

If a society wishes to remain incorporated, it must reregister under the new Act by **5 April 2026**.

Who are the External Reporting Board (XRB)?

The XRB is an independent crown entity that is responsible for developing and issuing reporting standards on accounting, audit and assurance, and climate for entities across the private, public, and not-for-profit sectors. Our work ensures that New Zealand organisations follow consistent and transparent reporting practices, providing accurate and reliable financial information to stakeholders.

The XRB has developed Accounting Standards specifically for not-for-profit entities to provide useful financial information to interested stakeholders in a cost-effective manner.

The Tier 3 Not-For-Profit Accounting Standard

The Tier 3 Not-For-Profit (NFP) Accounting Standard (Tier 3 NFP Standard) is for small to mid-sized organisations. It is a single NZ financial reporting standard – all requirements are contained in one document. It is accrual based (meaning transactions are recorded as they occur rather than when money is paid/received) and is considered generally accepted accounting practice.

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If you are eligible to apply the Tier 4 Not-For-Profit Accounting Standard or meet the 'small society' criteria set in the new Act, you can still voluntarily elect to apply the Tier 3 NFP Standard. This may be the right choice for you, if you have already been preparing financial statements on an accrual basis.

Note: All links in this document are to the XRB Standard Navigator and provides a simple way to access the Tier 3 NFP Standard.

What changes when applying the Tier 3 NFP Standard?

In the table below we outline the components of a complete performance report (Under the Tier 3 NFP Standard, it is called a performance report rather than financial statements). Some of these elements were not required under the old Incorporated Societies Act (the 1908 Act).

For each of the components of the performance report, the Tier 3 NFP Standard contains guidance on how you are expected to complete them.

Tier 3 NFP Standard Performance Report	Requirements of S23(1) of the 1908 Act
Entity Information	No equivalent requirement
Statement of Service Performance	No equivalent requirement
Statement of Financial Performance	Income and expenditure
Statement of Financial Position	Assets and liabilities
Statement of Cash Flows	No equivalent requirement
Statement of Accounting Policies	No equivalent requirement
Notes to the Performance Report	Information on mortgages, charges and security interests over property

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Other key changes

Format and Presentation Requirements

There are general format and presentation requirements for each Statement. Specific categories are required to be used, and the composition of these categories cannot be changed. However, the names of these categories may be altered, and any further information can be provided in the Notes to the Performance Report.

Prescribed accounting policies

Under the Tier 3 NFP Standard, revenue, expenses, assets and liabilities are recorded when transactions occur. Accordingly, the Tier 3 NFP Standard includes accounting policies that must be used to determine when and how you record these items.

Disclosures in the Notes to the Performance Report

The Tier 3 NFP Standard specifies a range of disclosures that should be included in the Notes to the Performance Report, as applicable to your society.

Key concepts and terms

Accrual accounting (not cash accounting)

The Tier 3 NFP Standard is based on recording transactions on an accrual accounting basis; where revenue, expenses, assets or liabilities are recorded when a transaction occurs, regardless of when the cash payment is received or made.

If you were previously only recording transactions in the financial statements based on bank transactions (a cash basis), you will need to consider, at financial year-end, whether any additional transactions need to be captured.

For instance:

- Receivables (amounts owed to you);
- Payables (amounts owed by you);
- Non-cash accounting impacts (like depreciation of assets); or
- Other accrual accounting entries (such as adjusting revenue and expenses for prepayment of expenses, or revenue received in advance of spending next year).

Significant (Paragraphs A6-A9)

The Tier 3 NFP Standard frequently refers to 'significant'. An item is significant if recording and/or disclosure of the item, whether financial or non-financial, could influence a user's understanding of the entity's overall performance. If a disclosure is not significant, then it is not generally required.

You should keep this principle in mind and look to ensure the performance report only includes significant information, rather than an excessive amount of unhelpful detailed information.

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Other requirements of the Tier 3 NFP Standard (Paragraphs A4-A36)

- Comparative/prior year information should be provided.
- Consistency of presentation – accounting policies should be selected and applied consistently. Information should be presented consistently across years.
- No amounts should be offset or netted against each other – except for valuation adjustments such as write downs of inventory, or property, plant and equipment, and GST owed/owing with Inland Revenue.
- Correction of errors – significant errors should be corrected as soon as practicable.

Statement of Service Performance Information

The Statement of Service Performance requires societies to include information about:

- **what your society is seeking to achieve over the medium- and long-term; and**
- **progress towards its objectives during the financial year.**

To display progress towards your medium- and long-term objectives, you should include a meaningful mix of measures that enable your members to evaluate the society's activities throughout the financial year.

These measures should align to your society's overall purpose and could look like:

- Increase in membership; or increase by type of membership.
- Number of services delivered, or a quality assessment of services provided.
- Number of meetings or events that contribute to the achievement of your society's purpose.
- New programmes or services initiated.

These measures could be numerical (quantitative) or could be descriptive (qualitative) and it is often useful to have a mix of both.

Reporting your activities in previous years may also be needed to show your progress in a meaningful way – you should be as consistent as possible in what you are reporting year on year. See Section 4 of the Standard for further detail.

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An example for a Sports Club

A Sports Club may have a purpose to promote and support participation in a sport. They may have medium- to long-term objectives, that broadly include increasing youth participation, increasing engagement with the community and improving facilities.

During the year, and in pursuit of its objectives, the club hosted workshops at several local schools, held several community 'have a go' days, more widely advertised registration, and purchased some new equipment to replace aging items.

The club would show progress on these objectives by providing measures that show the impact of these activities undertaken during the year and trends over time:

- *Increasing youth participation* – by comparing the current year number of youth teams to previous years' numbers and to planned targets.
- *Increasing engagement with the community* – by showing year on year increasing amounts of events and turn out at events held for the community.
- *Improved facilities* – by outlining the purchase of new equipment in line with an overall plan to improve facilities.

For information on Assets & Liabilities and Revenue & Expenses, please refer to XRB's other guides on the next page

Other Resources

The XRB has several resources to help you, as you begin to report under the Tier 3 NFP Standard. These include:

- Tier 3 Not-For-Profit (NFP) Accounting Standard
- Reporting Template for Tier 3 (NFP) Entities
- What's changed in the new Tier 3 (NFP) Standard? – Explanatory Guide
- Financial Reporting by Not-for-profit Entities: The Reporting Entity – Explanatory Guide
- Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes – Explanatory Guide
- Tier 3 NFP Income & Expenses Guide
- Tier 3 NFP Assets & Liabilities Guide
- Tier 3 NFP Transition Requirements
- Tier 3 NFP Things to Watch Out For…

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At a glance

Incorporated Societies

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When applying the Tier 3 Not-for-Profit (NFP) Standard

Transition Guide

Applying the Tier 3 NFP Standard: First time adoption?

The Tier 3 Not-For-Profit Accounting Standard

The Tier 3 Not-For-Profit (NFP) Accounting Standard (Tier 3 NFP Standard) is for small to mid-sized organisations. It is a single NZ financial reporting standard – all requirements are contained in one document. It is accrual based (meaning transactions are recorded as they occur rather than when money is paid/received) and is considered generally accepted accounting practice.

If you are eligible to apply the Tier 4 Not-For-Profit Accounting Standard or meet the 'small society' criteria set in the new Act, you can still voluntarily elect to apply the Tier 3 NFP Standard. This may be the right choice for you, if you have already been preparing financial statements on an accrual basis.

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What is the purpose of this guidance and what can you expect from it?

This guidance is designed to provide a brief overview of how to transition to using the Tier 3 NFP Standard for the first time. Moving to a new reporting framework may seem daunting, however there are several transition provisions within the Tier 3 NFP Standard to help make this process efficient and effective.

When applying the Tier 3 NFP Standard for the first time, there are a couple of key aspects to understand about the transition process.

1. Transition Date: The Transition Date is the specific date from which the Tier 3 NFP Standard must be applied to all your transactions. Think of it as the starting point for implementing the new requirements. We outline the options available to you on the next page.

2. Implementation of Changes: Understanding how to implement the changes required by the Tier 3 NFP Standard is equally important. This involves a series of steps and adjustments. We briefly explore a high-level implementation process on page 4.

Note: All links in this document are to the XRB Standard Navigator and provides a simple way to access the Tier 3 NFP Standard.

Applying the Tier 3 NFP Standard: How to adopt the Tier 3 NFP Standard?

1

Review and compare your current accounting practices to the requirements of the Tier 3 NFP Standard

Review your current accounting practices to help identify the changes you need to make to meet the requirements of the Tier 3 NFP Standard.

You can start by reviewing your previous income statement and assets and liabilities line by line, identifying how you determined the recorded amount and if you made any additional disclosures. Then compare the treatment of these items to the requirements of the Tier 3 NFP Standard for accounting policy, disclosure and presentation.

You should also consider the following questions:

- Have you been using accrual accounting and need to make additional adjustments, such as recording debtors, creditors and other non-cash items like depreciation?.
- Are there significant estimates and judgements that need revising based on the Standard (e.g. useful lives of property, plant, and equipment for depreciation, or assessment of bad debts, or the current value of old inventory)?
- How do the presentation requirements of the Standard differ to your previous practice?
- Do any of the required disclosures for the Notes to the Performance Report apply to your society?
- What additional information may be needed to prepare the additional Statements required (Service Performance, Cash Flows, Accounting Policies)?

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2

Select your transition approach (for more detail on this step refer to the next page)

We expect most societies will apply the special provisions and apply the Tier 3 NFP Standard to current year information only, for first year adoption of the Standard. This provides a simpler and cost-effective *transition approach*.

3

Apply Tier 3 NFP Standard requirements to your preparation

Select and apply the relevant accounting policies and broader requirements of the Tier 3 NFP Standard, including service performance reporting.

Our Tier 3 NFP Reporting template will help you understand and apply the requirements of the Tier 3 NFP Standard and make completing your Performance Report easier.

Applying the Tier 3 NFP Standard: Transition Approach

Your transition date is the starting date from which you must apply the Tier 3 NFP Standard. The transition provisions are outlined in Appendix C to the Tier 3 NFP Standard. Most incorporated societies upon first time adoption will not have previously applied accounting standards issued by the XRB. Accordingly, most societies will be able to apply the special provisions in the Tier 3 NFP Standard.

Special Provisions

Transition date is the first day of the current financial year. For instance, if your financial year ends 31 March 2025, then your transition date is 1 April 2024.

The special provision overrides any requirement in the Standard for prior year information to be reported.

1. Apply the Tier 3 NFP Standard and related accounting policies to the preparation of the current year information only.
2. Attach financial statements from previous year with a list of your previous accounting policies to your current year Performance Report.

The special provisions in Paragraph C10 of Appendix C also allow you to choose to apply the general provisions in Paragraphs C3-C6 of Appendix C (should you wish).

General Provisions

Transition date is the first day of the previous financial year. For instance, if your financial year ends 31 March 2025, then your transition date is 1 April 2023.

The general provision allows you to update your prior year information to be consistent with your current year information.

1. Ensure all assets and liabilities are recorded at transition date. For any unrecorded assets and liabilities record these in line with C5 in Appendix C. Record any difference to your previous position through accumulated funds at transition date.
2. Apply the Tier 3 NFP Standard and related accounting policies to both your prior year and current year information.

Note: Your prior year information may end up being different to what was published in previous year's performance report under the general provision.

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EXTERNAL REPORTING BOARD

At a glance

Incorporated Societies

DRAFT

When applying the Tier 3 Not-for-Profit (NFP) Standard

Watch out for…

Applying the Tier 3 NFP Standard: Watch out for…

When applying the Tier 3 Not-For-Profit (NFP) Accounting Standard, you may encounter situations where you need to apply more complex requirements.

Where the Tier 3 Standard does not provide guidance on accounting for a specific type of transaction or event, you may need to refer to the requirements in the Tier 2 Standards. If you need to apply a Tier 2 Standard, then you will be required to apply that Standard to all transactions of that type. Common examples include accounting for interests in other entities or accounting for transactions if you are an agent for another entity.

Watch out for these requirements when applying the Tier 3 Standard

Principal vs Agent transactions

If your society collects revenue and incurs expenses on behalf of another party, you must consider whether you are acting as the principal or as an agent in the transaction.

If you are acting as an agent, you should not record the amounts collected or incurred in your Statement of Financial Performance or Cash Flows, as they should offset.

- Any amount not yet returned to the other party should be recorded in the Statement of Financial Position as a payable.
- If you earn a margin while acting as an agent, the margin earned should be recorded as a single item in revenue.
- The same approach should be taken in the Statement of Cash Flows.

For further information, see sections Paragraphs A101-104 in section 5 and Paragraph A230 in section 9 of the Tier 3 Standard.

Accounting for interests in other entities

When applying the Tier 3 Standard, you are required to identify your interests (control and ownership rights) in other entities and assess whether any of those interests result in you needing to consolidate or account for an investment in an associate or a joint arrangement.

If you have these interests, you will need to use the relevant Tier 2 Standards.

- Consolidation (where you control other entities) – Consolidation is the process of combining financial information across all entities within a group to present a single set of financial statements. Your society will be required to consolidate if it 'controls' any other entities. Refer to the applicable accounting standard (PBE IPSAS 35).
- Joint arrangements – A joint arrangement is an arrangement of which two or more parties have "joint control". Refer to the applicable accounting standard (PBE IPSAS 37).
- Investments in Associates – An associate is an entity you have significant influence over by way of your investment. Refer to the applicable accounting standard (PBE IPSAS 36).

For further information on joint arrangements, investments in associates and consolidation, we recommend viewing **Explanatory Guide A8** and **Explanatory Guide A9**.

Note: All links in this document are to the XRB Standard Navigator and provides a simple way to access the Tier 3 NFP Standard.

DRAFT

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EXTERNAL REPORTING BOARD

At a glance

Incorporated Societies

DRAFT

When applying the Tier 3 Not-for-Profit (NFP) Standard

Assets & Liabilities Guide

Applying the Tier 3 NFP Standard: Assets & Liabilities Guide

Below are examples of common assets and liabilities and what you would consider when recording these at financial year end. You may find this helpful to give you an indication of what to consider for these types of assets and liabilities on adoption.

You will also need to organise your assets into current and non-current assets (Paragraph A118), and your liabilities into current and non-current liabilities (Paragraph A162).

- **Current assets and liabilities are expected to be used, or removed, within 12 months**
- **Non-current assets and liabilities are expected to last beyond 12 months**

Assets	Adoption considerations see Paragraph A121 and Table 3 for more information
Cash and short term deposits (A109)	Check your bank balances recorded tie to your bank statements (or your bank reconciliation)
Debtors (invoices owing to you/accounts receivable – A110)	If you have not previously recorded debtors you will need to record the amount receivable from invoices issued prior to your financial year end where payment was not received. You are also required to assess whether any of the debtors balance is likely to not be received (Paragraph A124). If it were known at your financial year end that any part of the balance was a bad debt then this amount should be written off as an expense.
Prepayments (expenses paid in advance of the financial year they relate to – A111)	Consider if anything **significant** has been prepaid in advance of the actual financial year they relate to. A common expense to watch out for is insurance, along with any subscription-based expenditure (especially when paid annually).
Inventory (A112)	The Tier 3 NFP Standard requires you to hold your inventory at the lower of cost or net realisable value (current value it could be sold for). You will need to assess the balance of inventory and if the current value it could be sold for is lower than its cost you must record an expense to reduce the balance. This assessment should be made based on information as at financial year end without the benefit of hindsight!

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Applying the Tier 3 NFP Standard: Assets & Liabilities Guide

Assets	Adoption considerations see Paragraph A121 and Table 3 for more information
Investments (A114 and A145-A151)	Investments can be recorded at cost. However, if you have publicly traded investments, you may elect to record at a current market value. If you have interest bearing investments - interest that is earned up to your financial year end but has not been paid should be recorded (if it is significant). You may decide to record this amount onto the balance of your investment. If you receive dividends - any dividends that are declared but not yet paid should also be accrued (if they are significant). Again, you may decide to record this onto the balance of your investment.
Property, plant and equipment (fixed assets – A113 and A129-A142)	If you have property, plant and equipment then there are several things to consider upon adoption: • Recognition and valuation of significant assets • Depreciation • Investment property Recognition and valuation of significant assets Have you recorded all significant items of property, plant and equipment? If not, the Tier 3 NFP Standard allows you to record these items at a readily obtainable current amount (such as rateable value or government valuation). *You can also elect to revalue classes of property, plant and equipment to a current market value (should you wish).* Depreciation Depreciation must be recorded based on an estimate of the useful life of the item of property, plant and equipment. If you have applied depreciation previously (e.g. in line with Inland Revenue depreciation rates), you must consider whether the rates used align with the estimated useful life of the asset. If there are significant differences, you will need to change your depreciation rates to align with the estimated useful life. The changes can be made on a go forward basis. Investment property (A143-A144) You can classify items of property, plant and equipment as investment property if they are held primarily to generate rental income or for capital gains. This description may better match your use of the asset.

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Applying the Tier 3 NFP Standard: Assets & Liabilities Guide

Liabilities	Adoption considerations See Paragraph A166 and Table 4 for more information
Creditors and accrued expenses (A155-A156)	If you have not previously recorded transactions on an accrual basis, you will need to determine your creditors and accrued expenses balance at your financial year end. 1. Record as creditors the amounts of any invoices dated prior to financial year end but that are not yet paid; and 2. Record any significant expenses that were incurred in the financial year but not paid until after financial year end.
Employee costs payable (A157)	If you have not recorded salaries and wages payable or a holiday pay provision or any other relevant employee costs payable previously, then we suggest determining whether the balances would be significant at your financial year end. If they are significant then the appropriate balances owing should be recorded as employee costs payable.
Deferred revenue	A review of the types of revenue your society generates, and the required accounting policy for recording these, should help you determine whether you are required to record deferred revenue at financial year end.
Loans (A158)	Ensure you go back to your loan statements to check the correct principal balance at your financial year end. If accrued interest is **significant** and has not been recorded, we suggest recording this either in the loan balance or within creditors and accrued expenses.

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Note: All links in this document are to the XRB Standard Navigator and provides a simple way to access the Tier 3 NFP Standard.

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EXTERNAL REPORTING BOARD

At a glance

Incorporated Societies

When applying the Tier 3 Not-for-Profit (NFP) Standard

Revenue & Expenses Guide

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Applying the Tier 3 NFP Standard: Revenue & Expenses Guide

As part of preparing your Statement of Financial Performance you will need to classify your society's transactions to the specific categories used by the Tier 3 NFP Standard. Some judgement may be required to select the appropriate categories.

These categories cannot be combined or broken down into more detailed categories in the Statement of Financial Performance. However, the name of these categories can be changed, provided that the separate categories are still maintained.

- **Revenue categories – See Paragraph 60 in the Tier 3 Standard**
- **Expenses categories – See Paragraph A89 in the Tier 3 Standard**

Revenue that contributes to the achievement of a society's purpose

Most incorporated societies organise activities related to what they were set up to do. These activities generally aren't a strictly commercial or fundraising activity, and it would not be appropriate to classify the revenue into the revenue categories, such as 'donations, koha, bequests, and other fundraising activities' or 'revenue from commercial activities'.

These activities typically contribute to the achievement of a society's purpose. For instance, a society may run specific events (such as an annual conference, tournaments or races) and collect additional fees for participation.

The revenue from these types of activities can be classified to the category '**non-government service delivery grants/contracts**'.

Revenue	Explanation
Non-government service delivery grants/contracts	**Can also include revenue from activities that contribute to the achievement of your society's mission or purpose.** The revenue does not need to relate to a service delivery grant or contract in these cases (Paragraph A64). **Some examples may include:** • Affiliation fees • Competitions, tournaments, race fees etc. • Uniform/gear/merchandise sales to members • Annual conference • Awards/prizegiving events • Rental of uniform/gear/equipment to members • Levies • Revenue from operating a bar (if it doesn't contribute to achievement of your society's purpose then it will need to be considered either a commercial or fundraising activity)

DRAFT

Applying the Tier 3 NFP Standard: Revenue & Expenses Guide

Example of 'non-government service delivery grants/contracts' revenue

A car club exists to support a passion for vehicles and racing. As a result, the club runs different types of race series for members and others to participate in. The club looks to cover all costs and charges for participation and entry.

Extract of income (fees charged for participation)	
Track day races	$9,342
Summer race series	$53,581
Winter race series	$81,056
Other events	$44,389
	$188,368

As the revenue from all these race series contributes to the achievement of the club's purpose, the revenue can be classified as 'non-government service delivery grants/contracts'. The club decides to rename this classification to 'Race and event income' to make it more understandable for members.

Extract from Statement of Financial Performance	
Race and event income	$188,368

In previous reporting, the club had shown income separately for each race series. However, the Tier 3 Standard, requires the revenue to be grouped in one category on the Statement of Financial Performance. The club may want to provide a further breakdown of 'Race and event income' in the Notes to the Performance Report to still give this financial detail to users of the performance report.

Direct expenses are classified as 'Other expenses related to service delivery'. However, the club decided to rename this category 'Direct race and event expenses'. A breakdown of this category may also be provided in the Notes to the Performance Report.

DRAFT

How do you classify general overhead expenditure?

- Other Expenses related to Service Delivery – Any overhead expenses related to government or non-government service delivery
- Expenses related to Commercial Activities – Any overhead expenses related to delivering commercial activities

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EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	11 December 2025
Subject:	**Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)**
Date:	27 November 2025
Prepared by:	Alex Stainer
Through:	Nimash Bhikha, Michelle Lombaard

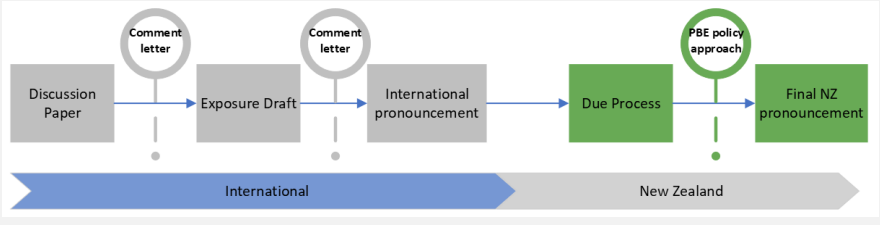
☒ **Action Required** ☐ **For Information Purposes Only**

COVER SHEET

Project priority and complexity

Project purpose	To address application issues arising when an entity translates amounts in a functional currency from a non-hyperinflationary economy to a hyperinflationary presentation currency.
Cost/benefit considerations	As these proposed amendments are unlikely to be widely applicable in New Zealand we do not expect many costs involved with adoption. As these amendments address application issues in practice, where they are applicable, we expect that these amendments will ease costs in practice.
Project priority	**Low** *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)* is a targeted and narrow scope amending standard that responds to the IFRS Interpretations Committee decision that recommends standard-setting activity to address application issues when an entity translates amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy. These amendments are not expected to impact many New Zealand entities, as most New Zealand entities present their financial statements in $NZ.

Overview of agenda item

Project status	

Board action required	**Low complexity** • **APPROVAL** to issue *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21),* which amends NZ IAS 21. • **APPROVAL** of the signing memo from the NZASB Chair to the Chair of the External Reporting Board • **AGREEMENT** with the proposed Tier 2 disclosure requirements and consultation plan. • **AGREEMENT** to defer development of equivalent amendments to the PBE Standards until the IPSASB has considered these amendments.

Purpose

1. The purpose of this memo is to seek approval of the domestic equivalent to the IASB amending standard *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*.

Recommendations/ actions

2. We recommend that the Board:

   (a) **APPROVE** for issue the amending standard *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*, which amends NZ IAS 21 *The Effect of Changes in Foreign Exchange Rates*;

   (b) **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board requesting approval to issue *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*;

   (c) **AGREE** to the proposed disclosure requirements for Tier 2 for-profit entities and to the proposed consultation with respect to *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*; and

   (d) **CONSIDER** the application of the PBE Policy Approach and **AGREE** to defer the decision to develop amendments to PBE Standards based the amendments until the IPSASB has completed its equivalent alignment project.

Structure of this memo

3. This memo includes the following sections:

   (a) Background

   (b) Summary of the main amendments

   (c) Consistency with Australian Accounting Standards

   (d) Due process

   (e) Commencement and application

   (f) RDR Concessions

   (g) PBE Policy Approach

Background

4. In July 2024, the IASB issued Exposure Draft ED/2024/4 *Translation to a Hyperinflationary Presentation Currency* (the ED). The ED was published on the XRB website, with comments due directly to the IASB by 22 November 2024. The NZASB did not comment on the ED.

5. The IASB received 32 comment letters from its world-wide constituents. No comments were received directly from New Zealand constituents.

6. In November 2025, the IASB issued *Translation to a Hyperinflationary Presentation Currency*, which is mandatory for annual periods beginning on or after 1 January 2027.

Reasons for the amendments

7. The IFRS Interpretations Committee (the Committee) received a submission highlighting inconsistent application of IAS 21 and IAS 29. The issue arises when entities operating in hyperinflationary economies translate financial results of operations with functional currencies in non-hyperinflationary economies.

8. Under the current requirements (IAS 21, paragraph 39), an entity that does not have a hyperinflationary functional currency must:

   (a) translate assets and liabilities at the closing exchange rate at the date of that statement of financial position;

   (b) translate income and expenses using exchange rates at the transaction dates; and

   (c) not restate comparative amounts.

9. However, this approach does not consider whether the presentation currency itself is hyperinflationary and does not align with methods that have been designed to mitigate the impact of a hyperinflationary economy on translation of financial information.

10. For instance, the method outlined in IAS 21, paragraph 42, which applies to entities with hyperinflationary functional currencies, means an entity must:

    (a) translate all amounts (including assets, liabilities, equity items, income and expenses, and comparatives) at the closing exchange rate at the date of the most recent statement of financial position; except that

    (b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements

11. This method ensures that the financial information is translated using the current exchange rate at reporting date to ensure financial information transacted prior to reporting date (although in some cases not the comparatives) does not provide misleading information due to major changes in the value of the functional currency.

12. Furthermore, entities able to apply IAS 29 *Financial Reporting in Hyperinflationary Economies* (those whose functional currency is hyperinflationary) must also restate income and expenses, and comparative amounts, in terms of a current measuring unit when translating the financial information to a hyperinflationary presentation currency.

13. Stakeholders consulted by the Committee expressed concern about the lack of guidance for entities operating in a non-hyperinflationary economy who translate financial information to a presentation currency of a hyperinflationary economy. They noted that financial statements

presented in a hyperinflationary currency are only meaningful if restated in terms of a current measuring unit (exchange rate), consistent with IAS 29.

14. The Committee concluded that a narrow-scope amendment to IAS 21 would efficiently address the issue and reduce diversity in practice.

Summary of the main amendments

Use of the closing rate (paragraph 41A)

15. The amendments require an affected entity to translate all amounts, including comparative amounts, using the closing rate at the date of the most recent statement of financial position. This translation method is the same as set out in IAS 21, paragraph 42 (shown in the section above) which is applied by entities that have a hyperinflationary functional currency.

Exception to using the closing rate for comparative information (new paragraph 47A)

16. The amendments have also provided for an exception to using the closing rate for comparative information in instances where the foreign operation is being consolidated into the parent entity.

17. In these instances, instead of retranslating the comparative amounts of the foreign operation at a closing rate and therefore being required to prepare/calculate consolidation entries again, the comparative information can instead be translated using a general price index instead (current measuring unit) as outlined in IAS 29, paragraph 34.

Disclosures

18. The amendments also add the following disclosures:

    (a) Paragraph 53A – The fact that all amounts (that is assets, liabilities, equity, income and expenses, including comparatives if the entity has not applied paragraph 47A) in its financial statements, or in the results and financial position of its foreign operations, have been translated at the closing rate at the date of the most recent statement of financial position.

    (b) Paragraph 53B – Summarised financial information about its foreign operations for which the results and financial position have been translated in accordance with paragraphs 41A and 47A. This summarised financial information enables users of financial statements to assess the effect of these foreign operations on the entity's results and financial position.

    (c) Paragraph 54A – When an entity applies paragraph 41B, the entity shall disclose that its presentation currency has ceased to be the currency of a hyperinflationary economy.

Consistency with Australian Accounting Standards

19. We note the AASB will incorporate the same amendments into the AASB 21 to maintain alignment with IAS 21. As at the date of this memo, we have reached out to staff of the Australian Accounting Standards Board (AASB) to understand the timing for when the amendments will be sent to the AASB for approval and what Tier 2 disclosures requirements will be incorporated.

20. We will provide a verbal update of AASB staff plans at the Board meeting and whether there is consistency with our approach.

Due process

21. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the ED and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's June 2025 meeting.[1]

22. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

23. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Commencement and application

24. Section 28 of the Financial Reporting Act states that the accounting periods in relation to which a standard or amendment commence to apply "must not be accounting periods or interim accounting periods that have ended or that end before the standard, authoritative notice, amendment, or revocation takes effect". Furthermore, the Legislation Act 2019 does not allow legislation to have retrospective effect in New Zealand.

25. We have considered whether any modifications to *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)* are needed to ensure consistency with the abovementioned legislative restrictions.

Mandatory date

26. *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)* will be applicable to New Zealand for-profit entities for annual reporting **periods beginning on or after 1 January 2027** – with earlier application permitted for accounting periods that begin before this date, but which do not end before it takes effect (standards take effect on the 28th day after gazetting).

27. This is consistent with the effective date established by the IASB, to the extent permitted under section 28 of the Financial Reporting Act 2013.

Use of the term 'retrospective' and reference to IFRS 19

28. In *Translation to a Hyperinflationary Presentation Currency* as issued by the IASB, in the Commencement and Application section, paragraph 60P(b) referred to retrospective application in accordance with IAS 8. While such retrospective application does not constitute 'retrospective effect' for legislative purposes, we have amended the abovementioned wording to avoid potential inconsistency with the Legislation Act 2019 (see above) – using the same wording that we used in other recent amendments in similar situations.

29. Therefore, in the New Zealand amending standard, paragraph 60P(b) has been modified as follows:

> *"except as specified in (a), an entity shall apply the amendments ~~retrospectively~~ as if they had always been applied in accordance with NZ IAS 8".*

[1] A summary of the IASB's June 2025 meeting is available at: IFRS - IASB Update June 2025

30. Furthermore, in paragraph 60P(c) the IASB standard refers to those entities applying IFRS 19. As this standard has not been adopted in New Zealand, we have deleted the following text from this paragraph:

> *"[...]~~Similarly, an entity that applies IFRS 19 Subsidiaries without Public Accountability: Disclosures is no required to disclose the information that would otherwise be required by paragraph 178(f) of IFRS 19~~"*.

Questions for Board:

Q1. Does the Board **APPROVE** for issue *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*, which amends NZ IAS 21?

Q2. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board, requesting approval to issue the amending standard?

RDR Concessions

31. As per our (draft) RDR policy for Tier 2 for-profit entities, we have upon issue of the amending standard from the IASB, applied the RDR policy to identify potential disclosure concessions.

32. If the Board approves the amending standard, we propose moving forward with the staff recommendations in the table below. Based on the (draft) RDR policy, we are required to consult on Tier 2 disclosure requirements in all circumstances – whether proposing any RDR concessions or not. Given the level of applicability of these amendments within New Zealand, we do not believe an extensive consultation is required and no active outreach initiatives will be performed. We propose that these are consulted on via our website for a shorter period of 60 days.

33.

Disclosure requirement	Summary of analysis and staff recommendation
53A When an entity applies paragraph 41A to translate its results and financial position or the results and financial position of a foreign operation, the entity shall disclose the fact that all amounts (that is assets, liabilities, equity items, income and expenses and, if not applying paragraph 47A, comparatives) in its financial statements, or the results and financial position of its foreign operations, have been translated at the closing rate at the date of the most recent statement of financial position.	This disclosure meets the key disclosures as it provides useful information relevant to the applicable accounting policy. We do not consider the additional factors overturn the indication, as per below: • These disclosures are beneficial to users as they provide certainty of use of a current measuring unit for translation, which speaks to the quality and comparability of the information translated. • Costs of disclosure are low given the translation which entities would have to perform. • We have not identified any legislative exemptions around this information. • IFRS 19 includes this disclosure as it provides useful information about accounting policies and cost of disclosure is low.

Disclosure requirement	Summary of analysis and staff recommendation
	Staff recommend this disclosure requirement for Tier 2 entities, as this information would be fundamental to understanding the accounting policies for entities that use the closing rate at the date of the most recent statement of financial position (irrespective of whether it is a Tier 1 or Tier 2 entity).
53B When an entity's functional currency is that of a hyperinflationary economy, and that entity applies paragraphs 41A and 47A to translate the results and financial position of its foreign operations, the entity shall disclose summarised financial information about its foreign operations that enables users of financial statements to assess the effect of these foreign operations on the entity's results and financial position. The entity shall label the comparative summarised financial information about its foreign operations to identify that the entity prepared the information by applying the general price index it applies to corresponding figures for the previous reporting period in accordance with paragraph 34 of NZ IAS 29.	We consider that this information meets the key disclosures as it provides information on the nature and the extent of the non-hyperinflationary transactions and how they effect the group financial statements. We do not consider the additional factors overturn the indication, as per below: • These disclosures are beneficial to users as they provide certainty of the extent of the subsidiary to the group financial statements, and allow for further analysis for users. • Costs of disclosure are low given this information will be determined as part of the consolidation. • We have not identified any legislative exemptions around this information. • IFRS 19 includes this disclosure as it provides useful information about the composition and risk profile of the subsidiary, and the information should be readily available. **Staff recommend this disclosure requirement for Tier 2 entities, as this information would be fundamental to understanding the nature and extent of the foreign operation and the respective translation to the group financial statements – given it is a combination of hyperinflationary and non-hyperinflationary transactions (irrespective of whether it is a Tier 1 or Tier 2 entity).**
54A When an entity applies paragraph 41B, the entity shall disclose that its presentation currency has ceased to be the currency of a hyperinflationary economy.	This disclosure meets the key disclosures as it provides useful information relevant to the applicable accounting policy. We do not consider the additional factors overturn the indication, as per below: • These disclosures are beneficial to users as they provide certainty of use of a current measuring unit for translation, which speaks to

Disclosure requirement	Summary of analysis and staff recommendation
	the quality and comparability of the information translated. • Costs of disclosure are low given the translation which entities would have to perform. • We have not identified any legislative exemptions around this information. • IFRS 19 includes this disclosure as it provides useful information about accounting policies and cost of disclosure is low. **Staff recommend this disclosure requirement for Tier 2 entities, as this information would be fundamental to understanding the accounting policies for entities that use the closing rate at the date of the most recent statement of financial position (irrespective of whether it is a Tier 1 or Tier 2 entity).**

Questions for Board:

Q3. Does the Board **AGREE** to the Tier 2 disclosure requirements and consultation proposed within this memo in respect to *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*?

PBE Policy Approach

34. As *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)* amends IAS 21, which are used as the basis for IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*, we are required to apply the PBE Policy Approach to determine whether to propose amendments to the PBE Standards.

35. The PBE Policy Approach establishes a rebuttable presumption that, in the case of limited-scope amendments or amendments to an NZ IFRS that the NZASB considers are minor, the NZASB should not incorporate the change into the equivalent PBE Standard in advance of the IPSASB.

36. The table below considers the factors in the development principle as it applies to *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*.

Are the amendments minor?
Yes – these are limited scope amendments applying only in scenarios where an entity reports using a hyperinflationary presentation currency. We do not expect these amendments to widely impact NZ entities (for-profit or PBEs).
Will the IPSASB consider these amendments in an acceptable timeframe?
As the IASB have only recently issued these amendments, the IPSASB's most recent IPSAS-IFRS Alignment Dashboard does not yet indicate when they plan to address these amendments.

However, as the IPSASB is monitoring *Translation to a Hyperinflationary Presentation Currency* via the IASB work plan, we expect that the amendments will be considered in an acceptable timeframe.
Will the potential development lead to higher quality financial reporting?
Yes. The amending standard addresses application issues and will reduce diversity in practice. However, we do not expect that the issues addressed by the amendments are prevalent in PBEs and therefore the extent of improvement in the quality of PBE financial reporting will be limited.
Will the benefits outweigh the costs?
• *Relevant to the PBE sector as a whole?* – We do not have any indication that the issues that are being addressed by these amendments are common issues for the PBE sector in New Zealand. • *Whether the benefits outweigh the costs*? – We do not consider the benefits of incorporating the amendments into the PBE Standards would outweigh the costs of doing so ahead of the IPSASB. • *Coherence of the suite of PBE Standards* – The amendments would affect only PBE IPSAS 4. There are no consequential amendments to other PBE Standards so the coherence of the suite of PBE Standards would be maintained. • *Impact on mixed groups* – Developing amendments to the PBE Standards would promote a consistent approach and could have a positive impact on mixed groups. However, the impact of not introducing them to the PBE Standards at this time is likely to be limited given the targeted nature of these amendments and the unlikelihood they will apply to many for-profit or PBE entities in New Zealand.

37. We do not consider there is sufficient evidence to rebut the presumption that the NZASB will not incorporate the amendments into the equivalent PBE Standards in advance of the IPSASB. Therefore, we recommend to defer the decision to develop a PBE Standard based on these amendments until the IPSASB has developed their amendments.

Questions for Board:

Q4. Does the Board **AGREE** to defer the decision to develop a PBE Standard based on *Translation to a Hyperinflationary Presentation Currency* until the IPSASB has completed its equivalent alignment project?

Attachments

- Amending Standard – *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*
- Signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To: John Kensington, Chair External Reporting Board

Subject: **Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)**

Date: 11 December 2025

From: Carolyn Cordery, Chair NZASB

☒ **Action Required** ☐ **For Information Purposes Only**

Introduction[1]

1. In accordance with the protocols established by the External Reporting Board, the NZASB seeks your approval to issue *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)* which amends NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

2. These amendments respond to a recommendation from the IFRS Interpretations Committee, following a submission on how entities with a hyperinflationary presentation currency should translate amounts from operations with a non-hyperinflationary functional currency. The amendments aim to reduce diversity in practice and are expected to have limited impact in New Zealand.

3. The key amendments include:

   (a) Allowing entities to translate all amounts (including assets, liabilities, income and expenses, equity, comparatives) from a non-hyperinflationary functional currency to a hyperinflationary presentation currency using the closing rate at the date of the latest statement of financial position.

   (b) An exception to using the closing rate for comparative information in instances where the foreign operation is being consolidated into the parent entity. In these instances, instead of retranslating the comparative amounts of the foreign operation at a closing rate and therefore being required to prepare/calculate consolidation entries again, the comparative information can instead be translated using a general price index instead (current measuring unit) as outlined in paragraph 34 of NZ IAS 29.

Due process

4. The International Accounting Standards Board (IASB) issued Exposure Draft ED/2024/4 *Translation to a Hyperinflationary Presentation Currency* (the ED) in July 2024. The ED was

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

published on the XRB website with comments due directly to the IASB by 22 November 2024. The NZASB did not comment on the ED.

5. The IASB received 32 comment letters from its world-wide constituents. No comments were received direct from New Zealand constituents.

6. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the ED and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's June 2025 meeting.[2]

7. The IASB issued *Translation to a Hyperinflationary Presentation Currency* in November 2025, which is mandatory for annual periods beginning on or after 1 January 2027.

8. In December 2025, the NZASB approved *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

9. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

10. The amending standard is a standard in its own right. The amending standard is identical to *Translation to a Hyperinflationary Presentation Currency* issued by the IASB, except for the following:

    (a) A New Zealand specific introduction, formatting and numbering;

    (b) A scope paragraph explaining that the standard applies to Tier 1 and Tier 2 for-profit entities;

    (c) New Zealand specific wording for the commencement and application of the amending standard; and

    (d) The removal of amendments for IFRS 19 *Subsidiaries without Public Accountability*, noting that there is currently no New Zealand equivalent of that Standard due to previous decisions made by the NZASB.

11. The amending standard establishes some new disclosure requirements. We plan to consult and seek feedback on the proposed Tier 2 disclosure requirements.

12. The Australian Accounting Standards Board (AASB) is expected to approve an amending standard based on *Translation to a Hyperinflationary Presentation Currency* in the near future to AASB 21. This will maintain alignment with NZ IFRS with AASB and IFRS requirements.

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[2] A summary of the IASB's June 2025 meeting is available at: IFRS - IASB Update June 2025

13. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia.

14. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis. The AASB is expected to consider the effect of *Translation to a Hyperinflationary Presentation Currency* on AASB 1060 in 2026.

15. The issue of this amending standard is consistent with all three elements of the Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the current Accounting Standards Framework.

Commencement and application date

16. The commencement and application date requirements for the amending standard is included in Appendix A of this memo. An entity that is not an early adopter is required to apply the amending standard for accounting periods beginning on or after 1 January 2027.

17. Application is permitted for an 'early adoption accounting period' when that period begins before the mandatory date but has not ended or does not end before this amending standard takes effect (as defined in Appendix A).

Other matters

18. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

19. The NZASB recommends that you sign the attached approval certificate and certificate of determination on behalf of the External Reporting Board.

Attachments

- *Translation to a Hyperinflationary Presentation Currency (Amendments to NZ IAS 21)*
- Approval certificate
- Certificate of determination

Carolyn Cordery
Chair NZASB

Appendix A: Commencement and application

A1. The commencement and application provisions below will apply to the amending standard once it is published.

When standard takes effect (section 27 Financial Reporting Act 2013)

A2. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019[3].

Accounting periods in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

A3. The accounting periods in relation to which this standard commences to apply are:

(a) for an early adopter, those accounting periods following, and including, the early adoption accounting period; and

(b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the mandatory date.

A4. In applying paragraph A3:

early adopter means a reporting entity that applies the standard for an early adoption accounting period.

early adoption accounting period means an accounting period of the early adopter:

(a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and

(b) for which the early adopter:

(i) first applies this standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that the standard has been applied for that period.

mandatory date means 1 January 2027.

[3] The standard is expected to be published on 22 January 2026 and take effect on 19 February 2026.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	11 December 2025
Subject:	**IPSASB Measurement – application of the PBE Policy Approach**
Date:	27 November 2025
Prepared by:	Alex Stainer
Through:	Gali Slyzuberg, Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

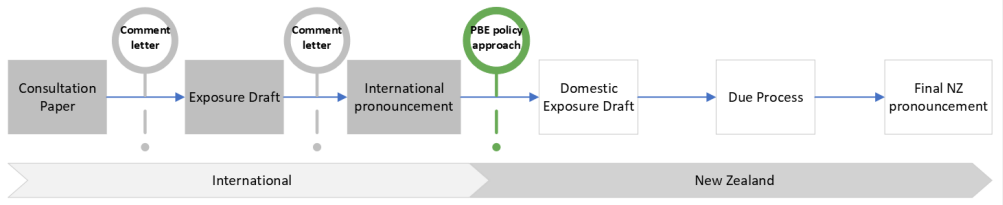
COVER SHEET

Project overview

Project purpose	• To apply the PBE Policy Approach to IPSAS 46 *Measurement* and other IPSASB pronouncements issued as part of the Measurement project; and • Depending on the result of applying the PBE Policy Approach: To incorporate IPSAS 46 and related IPSASB Measurement pronouncements into PBE Standards, including any necessary modifications for the NZ PBE context.
Cost/benefit considerations	Cost/benefit considerations are outlined in the application of the PBE Policy Approach in Table 2 of this memo. We also note that expected costs and benefits were discussed in the August 2025 meeting (see the NZASB August 2025 public meeting papers, page 137). These will be continually monitored as this project continues. We will inform the Board if additional costs and benefits are identified and ask the Board to redeliberate on costs and benefits as appropriate within the context of the project.
Project priority	**Medium** We are not aware of urgent issues relating to the current measurement requirements in PBE Standards. However: To date, PBE Standards for Tier 1 and Tier 2 entities have generally been primarily based on IPSAS. Given that measurement is a pervasive aspect of accounting standards, not aligning PBE Standards with IPSAS 46 and related IPSASB pronouncements could introduce significant misalignment between PBE Standards and IPSAS, which would increase as new and amended IPSAS are issued. It is important to decide on whether to reduce this misalignment, or to accept and justify it. If the NZASB decides to incorporate IPSAS 46 and other IPSASB Measurement pronouncements into PBE Standards, this change would impact many PBEs.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Overview of agenda item

Project status	
Board action required	**High complexity** APPLY the PBE Policy Approach to IPSAS 46 *Measurement* and related IPSASB Measurement pronouncements AGREE to commence a project to develop PBE Standards based on IPSAS 46 *Measurement* and related IPSASB Measurement pronouncements as a starting point.

Purpose and introduction[1]

1. In accordance with the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach), the Board is required to consider if and when to incorporate IPSAS 46 *Measurement* and the related IPSASB pronouncements into the suite of PBE Standards as issued by the XRB. Given the pervasiveness of measurement within the PBE Standards, adopting the IPSAS pronouncements represents a significant decision.

2. The purpose of this memo is to work through the application of the PBE Policy Approach as it relates to IPSAS 46 and the related IPSASB Measurement pronouncements.

3. The preliminary discussion at the August meeting on the expected costs and benefits of incorporating these pronouncements into PBE Standards has informed our recommendations below.

Recommendation

4. We recommend that the Board:

   (a) APPLIES the PBE Policy Approach to IPSAS 46 *Measurement* and related IPSASB Measurement pronouncements; and

   (b) AGREES to commence a project to develop PBE Standards based on IPSAS 46 *Measurement* and related IPSASB Measurement pronouncements.

Structure of this memo

5. The remaining sections of this memo are:

   (a) Project timeline

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

(b) IPSASB Measurement pronouncements

(c) Summary of feedback/discussion from preliminary discussion

(d) Application of the PBE Policy Approach

(e) Other relevant context

(f) Rebutting the presumption of the PBE Policy Approach

(g) Next steps

Project timeline

6. A detailed project timeline that covers the developments of this project to date including a summarised background of both IPSASB and XRB/NZASB activities is presented in Appendix A.

IPSASB Measurement pronouncements

7. As a reminder: The key changes introduced by the IPSASB in issuing IPSAS 46 and related Measurement pronouncements were to align the fair value requirements in IPSAS with IFRS 13 *Fair Value Measurement*, and to introduce current operational value (COV) as a new current value measurement basis. The table below summarises how these new IPSASB requirements compare to the current fair value requirements in PBE Standards.

Table 1 Old fair value requirements vs fair value and COV in IPSAS 46

Old fair value requirements (**currently used in PBE Standards in NZ**)	**IPSAS 46 *Measurement*** (2023):	
	Fair value aligned with IFRS 13	**COV** (new measurement basis)
Definition: The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction	Definition: 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.	Definition: The amount the entity would pay for the remaining service potential of an asset at the measurement date.
	IPSAS 46 specifies that fair value is: • an **exit price** • based on **market participants' assumptions** • reflects the asset's **highest and best use**	Unlike fair value, COV is • an **entry value** (cost to purchase/develop the asset) • **entity-specific** value • based on the asset's **existing use**.
Applicable to all assets that are revalued/as deemed cost for assets acquired in non-exchange transaction, regardless of the purpose for which the asset is held	Seen as appropriate for **assets held for their financial capacity**, i.e. to generate a financial return to fund the entity's activities – for assets that are revalued/as deemed cost.	Developed for **assets held for operational capacity** (i.e. to deliver services, rather than to generate financial return) – for assets that are revalued/as deemed cost.
Measurement techniques: Market value, depreciated replacement cost (DRC), etc.	Measurement techniques: Market approach, cost approach or income approach.	Measurement techniques: market approach or cost approach.

8. A more detailed analysis of the differences between COV and current fair value measurement requirements in PBE Standards, particularly depreciated replacement cost (DRC), together with feedback from stakeholders on these differences, was included in the NZASB August 2025 paper on IPSASB Measurement.[2]

Summary of feedback/discussion from preliminary discussion

9. An outline of the costs and benefits of the IPSASB measurement proposals were presented at the August 2025 meeting.[3] Below we have summarised the Board's views expressed at that meeting, where a preliminary discussion was held to inform the application of the PBE Policy Approach.

10. We acknowledge these are initial views subject to further consideration/discussion in the December meeting as the PBE Policy Approach is applied. We will also continue to monitor and assess the costs and benefits of this project, noting that there could be changes as further information comes to light or as other costs and benefits may be identified.

Table 1 – Summary of discussion at NZASB August meeting

Topic	Discussion points
Benefits (a) Consistency with international best practice/international alignment (b) Conceptual improvements (c) Long-term benefits for users of financial reports	**Comments we heard at the NZASB August meeting** Benefits well outlined. International alignment to reflect international best practice, but tailored to be locally relevant. Support for international alignment to avoid making significant changes to PBE Standards when adopting future IPSASB standards. PBEs raising debt should benefit from these new requirements being implemented (due to international alignment, as well as alignment of the fair value requirements with for-profit standards). There is a view that IPSAS is catching up to NZ measurement requirements and practice where there are no significant issues. Since PBE reporting in New Zealand is already of high quality in this area, adopting the new IPSASB requirements may not necessarily result in higher quality financial reporting in the short term, but it may help maintain/improve the quality of financial reporting in the long term. There was also a view that these requirements may be more for developing nations who are developing their valuation techniques as opposed to established countries that have embedded valuation approaches. International feedback is that NZ entities revalue more than entities in other countries. Initial discussions were held with NZ valuers already and no significant concerns were raised (aside from the change for certain assets from highest and best use to existing use when applying COV).

[2] See pages 149–150 and 158–160 in the NZASB August 2025 public meeting papers.
[3] See pages 143–154 in the NZASB August 2025 public meeting papers.

	It was noted that some public sector assets would never be used in their highest and best use, yet their fair value is currently measured on this basis – whereas COV (with its focus on existing use) would bring measurement more in line with the how assets are actually used.
Costs The following factors relating to costs were considered: (a) Prevalence of current value measurement among PBEs (b) Differences between fair value and current operational value (COV) per IPSAS 46 and the current requirements in PBE Standards (c) Whether the IPSASB have addressed our concerns (d) NZ specific areas of focus – impacts on mixed groups and not-for-profits	**Comments we heard at the NZASB August meeting** • There was general agreement that many aspects of COV make it similar to the DRC model and it could potentially be implemented into NZ without significant costs and disruption. However, we must consider more specifically which PBEs are using the DRC model, and how would the COV requirements impact the measurement process for assets that are currently measured using DRC. • We also need to assess whether the introduction of COV is more of an education issue (given the similarity to DRC), and the appropriate amount of education to help preparers and users understand the new concepts and terminology. • Noted that understanding the different types of assets held at operational capacity and how they are being used might help understand the impact of moving from "highest and best use" to "existing use" – in many cases there may only be one use. • In terms of the classification of relevant assets between being held for operational or financial capacity - entities already need to consider cash-generating and non-cash generating assets (for the purpose of impairment testing), so the concept of assets held for financial capacity and held for operational capacity may not be too difficult. • Need to understand from a public sector perspective how much importance is placed on asset valuations i.e. If a valuation significantly declined how would this impact the entity and its users - this should be considered when developing targeted questions for the Exposure Draft.
Other aspects (a) Transition (b) Application outside of PPE	**Comments we heard at the NZASB August meeting** *Transition* Noted that PBE revaluation cycles in practice are generally around 3-5 years. Accordingly, we may need to consider transition requirements, i.e. whether adoption of the Measurement pronouncements means that an immediate revaluation to COV is required (even if the year when a PBE adopts the new requirements is out of the revaluation cycle).

	We should consider whether to introduce a transition requirement upon first- time adoption that would allow an entity to transition to using COV within the usual revaluation cycle. *Application outside of PPE* General disappointment regarding the IPSASB's decision to introduce COV requirements for inventory and to not respond to matters raised in our comment letter in this regard. However, it was also noted that the Board should first make the more general decision on whether to develop PBE Standards using the IPSASB Measurement pronouncements as a starting point, and then make more specific decisions, such as whether COV should apply to the specific relevant standards[4]. General agreement that it is positive that the IPSASB has not introduced COV for intangible assets at this time.
Additional information requested	**Comments we heard at the NZASB August meeting** • Impact of the measurement proposals on Iwi organisations – subsector of not-for-profit PBEs *In appendix B, we outline our findings in respect of the following themes:* ○ *What specific types of assets are held by Iwi organisations?* ○ *Is revaluation prevalent?* ○ *Are assets held for operational or financial capacity or both?* *Overall, we note that these proposals will impact Iwi organisations. Iwi organisations hold assets for both financial and operating capacity. Revaluation is prevalent for those reporting in Tier 1 – but appears to be largely focussed on assets held for financial capacity (therefore would revalue in line with fair value as opposed to COV).* • How prevalent is the use of the 'highest and best use' assumption determining fair value of revalued PPE under current PBE Standards? *This question was asked in the context of understanding the impact of the requirement in IPSAS 46 to determine COV based on the asset's existing use, rather than highest and best use.* *PBE IPSAS 17 (paragraph AG9) requires the fair value of revalued land to be measured based on highest and best use. So, all PBEs in Tier 1 and Tier 2 that hold and revalue land would be determining the land's fair value based on highest and best use. We understand that the fair value of some buildings might be measured based on this premise.*

[4] It was also noted that the current NZ recognition exemption for donated inventory should remain in place.

	By contrast, it seems that the highest and best use premise is generally not used for revaluing infrastructure assets. Also, some infrastructure assets and some specialised buildings may not have alternative uses in any case. *The NZASB August paper on Measurement includes an analysis of the types of assets held by different types of PBEs*[5]*.* *On this basis, for PBEs in Tier 1 and Tier 2 that hold and revalue land, and potentially for those that hold and revalue non-specialised buildings, the requirement to measure COV based on the asset's existing use could change measurement practice for such assets. However, the impact of this change on the asset's carrying amount may not always be material. Also, considering that COV is an entry value, there is a question as to whether there are cases where the difference between the asset's existing use vs its highest and best use might not affect price for which the entity would purchase the asset or cost of constructing the asset.* • What are the *practical* benefits, costs and other implications for PBEs if we adopt the IPSASB's Measurement pronouncements into PBE Standards – particularly the COV requirements? • In addition, what impact will there be on the Public Sector if valuations were to decline as a result of introducing COV requirements for revalued PPE? *As part of gathering initial information in response to these queries, we have invited representatives from Treasury and Audit NZ to the December Board meeting to discuss the measurement proposals and provide context for the impact these will have in the public sector (particularly central government). We will also consult more widely on these aspects along with the overall proposals during the ED consultation stage, as part of our due process, to ensure we provide an opportunity for all stakeholders to comment. Accordingly, we plan to include this as a specific question for stakeholders as part of the consultation (if a domestic project is commenced).* *Please refer to the NZASB August 2025 paper*[6] *on IPSASB Measurement for staff's views on the expected costs and benefits of developing PBE Standards based on the IPSASB Measurement pronouncements.*

Application of the PBE Policy Approach

11. We are now asking the Board to apply the PBE Policy Approach and decide whether to initiate a project to incorporate IPSAS 46 and the related IPSASB Measurement pronouncements into the PBE Standards.

[5] See pages 146–149 in the NZASB August 2025 public meeting papers.
[6] See from page 137 in the NZASB August 2025 public meeting papers.

12. As IPSAS 46 and related measurement pronouncements are new or amending IPSAS, as per the PBE Policy Approach there is a rebuttable presumption that IPSAS 46 and the related IPSASB Measurement pronouncements **should be adopted into PBE Standards**.

13. Under the PBE Policy Approach, the decision on whether to amend PBE Standards is governed by the 'development principle', which states that "the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole)". Thus, "any developments should ensure that the needs of users are better met than they were prior to the development".

14. Table 2 on the next page considers the factors in the development principle, as provided for in the PBE Policy Approach, as they apply to IPSAS 46 and the related measurement pronouncements. The relevant pronouncements include:

    (a) Updated Conceptual Framework Chapter 7, Measurement of Assets and Liabilities in Financial Statements

    (b) IPSAS 45 *Property, Plant, and Equipment*

    (c) IPSAS 46 *Measurement*

    (d) *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*

15. While each pronouncement is separate, we will consider the application of the PBE Policy Approach as a group, given the proposals are connected through the measurement principles that the updated conceptual framework and IPSAS 46 introduce, and it would not make sense to commence a domestic project for one without commencing one for the others.

16. We also note that the Board already applied the PBE Policy Approach to IPSAS 44 *Non-current Assets Held for Sale and Discontinued Operations* in June 2022. The Board agreed to develop a PBE Standard using that pronouncement as a starting point, but to issue the related ED at the same time as other Measurement-related pronouncements.

Policy Approach to Development of Suite of PBE Standards

Table 2: Factors in the Development Principle

Factors in the Development Principle	Comment
Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made.	We expect that adopting IPSAS 46 and related IPSASB measurement pronouncements into PBE Standards will lead to higher quality financial reporting than if the development was not made. This is on the basis that measurement requirements are a pervasive aspect of the suite of IPSAS and the PBE Standards. As such, future new IPSAS and amendments to IPSAS will be underpinned by the measurement bases and related requirements introduced by the IPSASB measurement pronouncements. If the core measurement requirements in PBE Standards are not aligned with those introduced by the IPSASB Measurement pronouncements, there is a risk that over time, as new and amended IPSAS are issued, measurement requirements for assets (and liabilities) in PBE Standards might fall behind international best practice. There is also a risk that, in the process of modifying new or amended IPSAS to take into account the difference in the fair value requirements and the absence of COV in PBE Standards, requirements within the PBE Standards could become less coherent. These risks could affect the quality of PBE financial reporting. The potential development to PBE Standards (given its pervasiveness) ensures we maintain international alignment with IPSAS, better positions New Zealand to adopt future new or amending IPSAS, and helps maintain high quality financial reporting by mitigating the risks mentioned above. It also provides conceptual improvements specific to the measurement of assets in the public and not-for-profit sector – for example, by linking measurement more closely with the purpose for holding the asset, and by providing a clearly defined hierarchy of measurement concepts, i.e. measurement models, bases and techniques. In addition, the requirements and guidance on both fair value and COV in IPSAS 46 and related IPSASB Measurement pronouncements are generally more robust compared to the existing fair value requirements and guidance in PBE Standards.in PBE Standards, which could enhance consistent application of measurement requirements. (For full details of the benefits see our August paper[7])

[7] See from page 137 in the NZASB August 2025 public meeting papers.

Factors in the Development Principle	Comment
Whether the benefits of a potential development will outweigh the costs, considering as a minimum: **(i)** relevance.to.the.PBE.sector.as.a.whole¿**for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;** **(ii)** relevance.to.the.not_for_profit.or.public.sector.sub_sectors¿ **whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;** **(iii)** coherence¿**the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);** **(iv)** the.impact.on.mixed.groups.	<u>Relevance to the PBE sector as a whole (and to the not-for-profit or public sector sub-sectors)</u> The proposed development is directly relevant to the PBE sector as a whole, and more specifically to both sub-sectors, on the following basis: • Many assets in the public sector and not-for-profit sector are held for their capacity to primarily support the provision of services (rather than a financial return), therefore the COV measurement basis would be relevant to PBEs. • Revaluation is prevalent across both the public and not-for-profit sectors (even for the types of assets mentioned above). PBEs have been encouraged historically to revalue items of PPE. Prior to the adoption of NZ IFRS and IPSAS-based PBE Standards in New Zealand, the domestic 'Old GAAP' standard FRS 3 *Accounting for Property, Plant and Equipment* included a statement that encouraged the use of a current value model: *'while the annual revaluation of items of PPE is not required by this Standard, the adoption of a system involving annual revaluation, especially of land and buildings, is encouraged in order to provide more relevant information to users of an entity's financial report.'* [FRS 3, paragraph 7.2]. We understand that this encouragement was reinforced by both OAG and Treasury, and upon adoption of NZ IFRS where NZ entities could have made an election to move back to a cost model, many continued to apply the current value model instead. When IPSASB-based PBE Standards were adopted, PBEs that previously applied NZ IFRS (PBE), which included most public sector PBEs, were generally required to retain their previous accounting policies except in specific circumstances. For such PBEs, there was no option to move from the revaluation model to the cost model upon the adoption of PBE Standards – unless the general requirements in PBE IPSAS 3 for a voluntary change in accounting policy were met, which would have required demonstrating that the cost model is more relevant than the revaluation model. As a result, PBEs are locked into continuing to use the revaluation model with no option to move back to a cost model for certain classes of PPE (notwithstanding Crown accounting policies that may dictate revaluation for those central government entities). • Both sub-sectors currently use 'old' fair value (not aligned with IFRS) to revalue assets. • There are not any specific user needs of either sub-sector that would make these proposals irrelevant. <u>Coherence</u>

Factors in the Development Principle	Comment
	IPSASB have aligned measurement concepts across IPSAS (via these pronouncements) for the purposes of being coherent (given measurement is highly pervasive). The adoption of IPSAS 46 and the related IPSASB measurement pronouncements would be unlikely to weaken the coherence of the suite. Arguably, the PBE Standards are more at risk of losing coherence in the future if we do not adopt these IPSASB pronouncements. This is because future new IPSAS and amendments to IPSAS will be underpinned by the measurement requirements introduced by the IPSASB measurement pronouncements, and adopting these new IPSAS into PBE Standards while not being aligned with the IPSASB's core measurement requirements may lead to lack of coherence within the PBE Standards suite. <u>Impact on mixed groups</u> At this stage, we do not expect substantive issues in mixed groups. This is on the basis that fair value in the PBE Standards will be aligned with NZ IFRS – which creates consistency with for-profit entities for the revaluation of those assets held for financial capacity. In the context of a mixed group with ultimate PBE ownership, the valuation of commercial assets would therefore be consistent with the PBE Standards without adjustment. However, there might be some situations, in the context of a mixed group with ultimate for-profit ownership, where a PBE measures an asset held for operational capacity at COV, and is required to adjust the valuation to be consistent with the fair value requirements of NZ IFRS or must reconsider impairment using NZ IFRS. It should be noted that the situation described above is not dissimilar to the current status quo, given that current fair value requirements in PBE Standards are based on 'old' fair value and are not fully aligned with NZ IFRS, and current impairment requirements for non-cash-generating assets in PBE Standards are different to those in NZ IFRS. <u>General comment</u> In general, we note the following: • Measurement practice in NZ is well established. Practice has adapted in NZ for the valuation of public sector specific assets, and we understand the current fair value requirements generally work well in practice, despite the current PBE definition of 'fair value' being misaligned with the IFRS definition. However, as explained above, not aligning PBE Standards with the IPSASB measurement pronouncements could lead to lack of international alignment and potentially falling behind international best practice in the future, as well as potential risks around

Factors in the Development Principle	Comment
	the coherence of the PBE Standards suite in the future – which could affect the quality of PBE financial reporting in the long run. Aligning with the IPSASB measurement pronouncements mitigates these risks. • The primary driver for the IPSASB's changes are conceptual; before the IPSASB measurement project, the current definition of fair value (market value per the CF) was not aligned with IFRS, and the IFRS defined fair value is not suited to the valuation of public sector specific assets. The IPSASB have received significant support from their stakeholders in proposing these changes, largely as it aligns 'fair value' with IFRS and more accurately reflects the different purposes assets can be held for in the public sector – and tailors measurement accordingly. • The changes introduced by the IPSASB measurement pronouncements, while conceptually beneficial, will come with some cost. Revaluations of PPE are prevalent in the PBE sector, and we expect that the changes introduced by the IPSASB measurement pronouncements, particularly the introduction of COV as a new measurement basis, will cause a reconsideration of practice that may lead in some circumstances to change for many preparers/valuers/auditors while also forcing users to become familiar with two current value measurement bases. • We expect these costs are somewhat mitigated by the close alignment of COV to DRC and other fair value methods in current PBE Standards. In some cases, existing methods are expected to produce a valuation consistent with COV. However, we acknowledge there are some nuances to COV that will result in some differences to valuation method and thus to the final valuation – particularly for the valuation of property assets given the focus on 'existing use' rather than 'highest and best use'. An analysis of the differences between COV and DRC, together with a summary of feedback from stakeholders about these differences, is included in the August 2025 NZASB paper on IPSASB Measurement. This analysis will also be important when we consider stakeholder education to reduce costs. • Adoption of COV may potentially lead to reduced property valuations (due to the focus on existing use, rather than highest and best use) – which may weaken PBEs' balance sheet positions, leading to lower depreciation, and could subsequently cause a gap between the funding that the PBE receives and future asset replacement cost. This could be the case in situations where the asset's existing use is different to its highest and best use (and COV is based on the existing use), but when the time comes to replace the asset, a seller would charge the entity a price that is based on highest and best use, regardless of the fact that the entity will not use the asset differently. However, in other cases, COV and the related depreciation should be reflective of the cost to replace the asset in the future – given that the definition of COV refers to 'the amount that the entity would pay for the remaining

Factors in the Development Principle	Comment
	service potential of the asset', and 'the amount the entity would pay' is described as the price to acquire, or the cost to develop or produce, an identical or similar asset. • As a result of our active international engagement, we can demonstrate influence on the IPSASB's work whereby several of our key concerns that were expressed in the NZASB comment letters on the Measurement EDs were addressed (for example, removing the application of COV to intangible assets). However, there are still some unresolved issues relating to the application of COV to inventory, and the need for additional application guidance to ease adoption. (For full details of the points above see our August NZASB paper[8]). Staff conclusion Overall, we consider that the potential benefits outweigh the costs of adoption. While current practices in New Zealand appear effective, adopting the IPSAS pronouncements strengthen the conceptual underpinnings specific to the PBE sector, while also continuing the benefits of being internationally aligned. We believe there could also be further activities/actions that would help mitigate costs of adoption (i.e. education, and clarification of some practical aspects – such as indexing).

[8] See from page 137 in the NZASB August 2025 public meeting papers.

Other relevant context

17. The following considerations, while not explicitly addressed in the PBE Policy Approach, may be relevant to this decision:

Costs and benefits in seeking international alignment

18. It is possible that the IPSASB Measurement pronouncements may result in more costs/less benefits in New Zealand than in other jurisdictions, given the prevalence of revaluation in our PBE sector compared to other countries and our already mature measurement practices.

19. In the case of these measurement pronouncements, we acknowledge that the benefits of adopting these in New Zealand are heavily linked to the overall benefits of alignment with international best practice. In our view, it is important to understand whether adoption of these pronouncements will likely become an accepted practice internationally either currently or in the near future. Accordingly, we have enquired with IPSASB staff to understand whether any other jurisdictions have adopted these pronouncements or expect to do so in the near future.

20. IPSASB staff have confirmed the following[9]:

    (a) Brazil – IPSAS 45 and IPSAS 46 are undergoing the process of convergence (i.e. convergence between national standards and the abovementioned IPSAS). IPSAS 45 has completed consultation, and IPSAS 46 will undergo consultation in a few months. The effective date for both national standards, once converged with IPSAS, is set for 2027. However, the implementation will be mandatory in 2028, as required by the National Treasury, for the federal government, states, and large municipalities. For small municipalities, it will be mandatory in 2029.

    (b) Switzerland - IPSAS 45: measurement of PPE is currently based on historical cost; COV is not applied. IPSAS 46: They have a working group currently dealing with this topic, but the process may not be completed until around 2026.

21. We also note that South Africa have agreed to develop an ED of an IPSAS 46 equivalent along with changes to the Conceptual Framework[10]. They noted that stakeholders were generally supportive of the principles in IPSAS 46 and believed they would resolve certain measurement challenges currently experienced in the sector. However, we understand that many public sector entities in South Africa do not revalue PPE and use the cost model.

22. We also note that, based on IFAC's and CIPFA's 2024 Public Sector Financial Accountability Index, among those jurisdictions where the public sector applies accrual accounting, there are 4 jurisdictions that use IPSAS without modifications, 12 jurisdictions that use IPSAS modified for the local context (New Zealand is included in this category), and another 19 jurisdictions that use national standards with reference to

[9] Via email dated 15 November 2025.
[10] As noted on page 3 of December 2024 ASB minutes: https://www.asb.co.za/wp-content/uploads/2023/08/Attachment-1-Draft-minutes-of-the-Board-meeting-3-December-2024.pdf

IPSAS. It seems reasonable to expect that among those 33 jurisdictions, at least some countries will start implementation of the IPSASB Measurement standards in the coming years.

23. We will look to liaise with other countries that adopt the IPSASB Measurement pronouncements into their accounting standards, to share views and experiences about costs, opportunities and how to manage the adoption.

Rebutting the presumption of the PBE Policy Approach

24. A counterfactual view was provided in the August meeting paper. We believe the disadvantages that arise from this approach are a significant cost (loss of international alignment and potential credibility, sacrifice future positioning to adopt new or amending IPSAS, ongoing domestic standard setting to maintain). We do not think the benefit of maintaining the current approach outweighs these costs.

25. In considering whether to rebut the presumption, it should be noted that according to the PBE Policy Approach, rebutting the presumption is expected to occur only in exceptional circumstances—such as when the Board has significant concerns that, in the New Zealand context:

    (a) The adoption of a new or amended IPSAS would not be appropriate or relevant (based on the development principle); and

    (b) The costs of adoption would outweigh the benefits.

26. If the NZASB decides to rebut the presumption, it also must report to the XRB Board:

    (a) Its decision and the rationale behind it; and

    (b) Any planned actions regarding the new or amended IPSAS, such as whether a domestic standard will be developed or whether elements of the IPSAS will be incorporated.

Questions for the Board

Q1. Does the Board AGREE to commence a project to develop a PBE Standard, using IPSAS 46 and the related IPSASB Measurement pronouncements as the starting point?

Next steps

27. Our next steps will depend on the Board's decision with respect to the application of the PBE policy approach to the IPSASB measurement pronouncements. However, if the Board agrees to commence a project, a project plan to develop a draft ED will be brought to a future meeting. Indicatively, we aim to bring a draft project plan to the April 2026 meeting, acknowledging there are several factors we need to consider when presenting this to the Board.

28. If the NZASB agrees to commence the abovementioned project, we will consider throughout the project the extent of amendments required to ensure any new PBE Standard is fit-for-purpose for both public sector and not-for-profit entities in New Zealand – as the PBE Standards suite currently applies to Tier 1 and Tier 2 PBEs in both of these sectors. However, the Accounting Standards Framework review[11] may have implications for this project. This review is expected to be an ongoing project throughout 2026. Due to the significance of the measurement pronouncements, we would not recommend issuing domestic EDs and beginning consultation with our stakeholders until we have clarity on the direction for the PBE sector through the ASF review.

29. Furthermore, if the Board agrees to commence a PBE Measurement project, we will need to consider the priority and interaction of this project with the following upcoming and potential New Zealand projects relating to the following IPSAS:

    (a) IPSAS 43 *Leases*: The finalisation of PBE IPSAS 43 had been deferred, with the project direction to be reconfirmed in H1 2026. We do not expect to complete both PBE IPSAS 43 and the PBE Measurement project simultaneously (although we expect there may be some overlap in terms of the timelines of both projects). We plan to discuss with the Board in H1 2026 the relative priorities and timing of these two projects.

    (b) Forthcoming IPSAS 51 *Tangible Natural Resources Held for Conservation* (expected to be approved by the IPSASB in December 2025): The forthcoming IPSAS 51 has some similarities to IPSAS 45 *Property, Plant and Equipment*, in that it also relates to non-current tangible assets (albeit a subtype of such assets) and it also includes COV measurement requirements. As such, the forthcoming IPSAS 51 could potentially have implications for the development of a PBE Standard based on IPSAS 45 *Property, Plant and Equipment* and related consultation timing, depending on the outcome of the PBE Policy Approach to IPSAS 51 and future Board discussions in 2026.

30. Finally, as noted earlier in our memo, we will continue to monitor and assess the costs and benefits of this project. If a domestic project is commenced, we will ask the Board to redeliberate on the costs and benefits of this project prior to the issue of a domestic ED, ensuring that any new information or changes in context are appropriately considered.

Questions for the Board

Q2. Does the Board have any comments on the proposed next steps?

[11] As indicated in the XRB Statement of Intent (SOI) 2025-2030, page 13.

Appendix A

IPSASB Measurement: Project timeline

Date	Activity
IPSASB CP [complete]	
Apr 2019	IPSASB issues the Consultation Paper (CP) *Measurement*
Apr–Sep 2019	XRB consultation on IPSASB CP *Measurement* XRB staff draft the comment letter and discuss with NZASB
Sept 2019	NZASB submits comment letter on IPSASB CP *Measurement*
IPSASB EDs – Phase 1 [complete]	
Apr 2021	IPSASB issues the following EDs for public consultation: • ED 76 ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* • ED 77 *Measurement* • ED 78 *Property, Plant and Equipment* • ED 79 *Non-current Assets Held for Sale and Discontinued Operations* Key proposals: • Align the fair value definition and requirements in IPSAS with IFRS Accounting Standards – with fair value to be used for assets held for financial capacity. • Introduce current operational value (COV) as a new measurement basis for assets held for operational capacity. • Include requirements on fair value and COV, as well as historical cost and cost of fulfilment, in a single new standard on Measurement – and amend the Measurement chapter in the Conceptual Framework to focus on these four key public sector measurement bases. • Require revalued PP&E to be measured using COV if it is held for operational capacity, and at fair value if it is held for financial capacity. EDs 76 and 77 included an Alternative View from the NZ Member (and Australian Member) – mainly in relation to the lack of clarity around COV.
Apr–Oct 2021	XRB consultation on IPSASB EDs 76–79 XRB staff draft the comment letter and discuss with NZASB
Oct 2021	NZASB submits comment letter on IPSASB EDs 76–79
May 2023	IPSASB issues the following final pronouncements: • *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* • IPSAS 46 *Measurement* • IPSAS 45 *Property, Plant and Equipment* [IPSASB issued IPSAS 44 *Non-current Assets Held for Sale and Discontinued Operations* separately, in May 2022]

Date	Activity
Jun 2023	NZASB agrees to DEFER the application of the PBE Policy Approach to IPSAS 46 *Measurement* and the related IPSASB pronouncements until the IPSASB completes Phase 2 of its Measurement project.
IPSASB ED – Phase 2 [complete]	
Aug 2024	IPSASB issues ED 90 *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*. Key proposals: • Introduce COV into IPSAS 12 *Inventories* • Introduce COV into IPSAS 31 *Intangible Assets* • Replace 'value in use' with COV in IPSAS 21 *Impairment of Non-Cash-Generating Assets* • Other amendments: Add a definition of 'accounting estimates' consistent with IPSAS 46, enhance the consistency of current value measurement disclosures ED included Alternative View from the NZ Member (and South African Member) – concerns about introducing COV into IPSAS 31 *Intangible Assets*.
Aug–Oct 2024	XRB consultation on IPSASB ED 90 – including outreach with: • Accounting TRG; • PBE Working Group (preparers from councils, central government, tertiary education); and • Public sector auditors. XRB staff draft the comment letter and discuss with NZASB In preparation for applying the PBE Policy Approach to the IPSASB Measurement pronouncements, XRB staff also discuss the difference between COV and DRC (and other fair value requirements in current PBE Standards) with: • The stakeholder groups mentioned above; and • Valuers.
Nov 2024	NZASB submits comment letter on IPSASB ED 90
Jun 2025	IPSASB approves *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46 Measurement* (to be issued in August 2025). • Final pronouncement excludes the proposed introduction of COV for intangible assets – IPSASB agreed to further analyse respondents' comments on this proposal in a separate project.
Application of the PBE Policy Approach [current phase]	
12 Aug 2025	Preliminary discussion with NZASB on the application of the PBE Policy Approach to the IPSASB Phase 1 and Phase 2 pronouncements – covering: • What is the problem to be solved by adopting the IPSASB Measurement pronouncements – including expected issues if we do not adopt them; • Difference between:

Date	Activity
	○ COV definition and requirements in IPSAS 46 vs DRC and other fair value requirements in current PBE Standards; and ○ Fair value definition and requirements in IPSAS 46 vs current PBE Standards. • Expected impact on PBEs – how prevalent revaluation is among PBEs • Is there any other information that the Board needs to apply the PBE Policy Approach?
11 Dec 2025	Application of the PBE Policy Approach to IPSASB Phase 1 and Phase 2 pronouncements

Appendix B

At the NZASB August meeting we presented initial information on the prevalence of revaluation and the types of assets being revalued for certain types of entities in the PBE sector. The NZASB specifically requested similar information for Iwi organisations to further inform their decision.

1. **Impact of the measurement proposals on Iwi organisations – subsector of not-for-profit PBEs**

We have looked at a sample of Iwi entities to better understand the types of assets held, and how the IPSASB measurement pronouncements may impact their reporting.

All Iwi organisations that we reviewed operate as mixed groups – with the majority being a PBE parent with some for-profit and PBE subsidiaries. However, one Iwi organisation designated themselves as a for-profit entity, and applied NZ IFRS, but acknowledged that they held social assets (i.e. assets held to provide a social benefit rather than a commercial return) where the intention was not to maximise profit.

Iwi entities hold a very broad and diverse range of assets, including both commercial and social. There are some unique assets such as the heritage assets held, and assets held as social housing or as shared equity or rent-to-own schemes.

In terms of PPE: Revaluation appears to be prevalent for those Iwi reporting in Tier 1, but appears less common to revalue for those Iwi entities reporting in Tier 2.

Most classes of PPE revalued appeared to be held for financial capacity, but there were some instances (such as tribal properties, and some land and buildings) where they may be held for operational capacity, and therefore would need to apply COV upon adoption of the IPSASB measurement pronouncements.

As a result, we expect these organisations may need to work line by line through particular revalued asset classes (such as land and buildings) to determine which assets (or components of an asset) are held for operational capacity and which ones are held for financial capacity. These organisations may then present separate asset classes for those assets revalued using COV and those assets revalued using fair value.

For other revalued asset classes, it will be clearer that the individual assets within the class are held for financial capacity. In these circumstances, we do not expect that new fair value requirements will cause significant challenges or changes in practice of revaluation.

Sector/entity type	Revaluation model applied	Asset classes revalued	Asset classes not revalued
Iwi **Sample of 6 Iwi** **Made up of:** • **3 Tier 1 entities** • **3 Tier 2 entities**	50% applied a revaluation model to some classes of PPE 2 out of 3 Tier 1 entities applied a revaluation model 1 out of 3 Tier 2 entities applied a revaluation model.	• Land and buildings • Farms, hotels and associated plant • Some tribal properties	• Plant and equipment • Office equipment • Furniture and fittings • Land and buildings in some cases • Social assets • Heritage assets

In terms of assets other than PPE: We expect a number of assets held by Iwi organisations may not be impacted by the introduction of COV (considering that the IPSASB introduced COV only for PPE, inventory and the impairment of non-cash-generating assets) – but some of these may be impacted by the alignment of the definition of fair value with IFRS, such as:

- investment property,
- biological assets (e.g. bees, livestock, forestry),
- intangible assets (e.g. fishing quota, marine farm licences, carbon credits, brands, goodwill, software),
- assets held for sale

We do not expect inventories held (e.g. honey, agricultural food products, seafood, development property, sections of land) will be impacted by the introduction of COV, as many of these are not held for distribution at nominal or no charge.

Similar to PPE, we do not expect that the new fair value requirements will cause significant challenges in the revaluation of those items that are currently revalued based on 'old fair value'. However, we acknowledge any change to accounting standards involves costs and potential disruption, and this will be explored as part of our consultation period/project plan if the NZASB decides to commence a domestic project.

Final Pronouncement
May 2023

IPSAS®

International Public Sector Accounting Standard ®

IPSAS 46, *Measurement*

IPSASB International Public Sector Accounting Standards Board®

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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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IPSAS 46, MEASUREMENT

CONTENTS

	Paragraph
Objective	1
Scope	2–5
Definitions	6
Measurement	7–53
Initial Measurement	7–16
Subsequent Measurement	17–53
Disclosure	54–55
Effective Date and Transition	56–58
Effective Date	56–57
Transition	58
Appendix A: Historical Cost	
Appendix B: Current Operational Value	
Appendix C: Cost of Fulfillment	
Appendix D: Fair Value	
Appendix E: Amendments to Other IPSAS	
Basis for Conclusions	
Implementation Guidance	

Objective

1. **The objective of this 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 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 IPSAS 46, *Measurement* in measuring assets and liabilities.

3. Except as specified in paragraph 4, this Standard applies when another IPSAS requires or permits:

   (a) One or more of the measurement bases defined in this Standard; and

   (b) Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal).

4. The measurement requirements of this Standard do not apply to the following:

   (a) Leasing transactions accounted for in accordance with IPSAS 43, *Leases*;[1]

   (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 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 Standard is applied in measuring fair value as required in IPSAS 21 and 26).

5. The measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in the individual IPSAS.

Definitions

6. **The following terms are used in this 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 costs 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 amount the entity would pay for the remaining service potential of an asset at the measurement date.

[1] If this Standard is applied prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

Deemed cost is an amount used as a surrogate for transaction price 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 plus transaction costs, or the consideration received to assume a liability minus transaction costs, 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, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.

Transaction price is the consideration given to acquire, construct or develop 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 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, plus transaction costs for assets or minus transaction costs for liabilities, unless:**

   (a) **That transaction price, plus or minus transaction costs, 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, constructed, or developed, or a liability is assumed in an orderly market, the transaction price, plus or minus transaction costs, 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, constructed, or developed, 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 such cases, deemed cost is used to measure the initial value of the asset or liability. A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement. Current value measurement bases are described in paragraphs 23–31.

11. Any difference between deemed cost and any consideration given or received would be recognized as revenue or expenses, unless it is a contribution from owners or a relevant IPSAS requires otherwise.

12. Circumstances where a transaction price may not be observable or may not faithfully present relevant information include:

    (a) Transaction prices that have a concessionary element;

    (b) Assets transferred to the entity free of charge by a government or donated to the entity by another party;

    (c) Liabilities imposed by legislation or regulation;

(d) Liabilities to pay compensation or a penalty arising from an act of wrongdoing or breach of contract;

(e) Transaction prices that are affected by relationships between the parties, or by financial distress or other duress of one of the parties; and

(f) Transaction prices that are not available on the date of adoption of IPSAS as defined in IPSAS 33.

13. When assets are acquired, constructed, or developed, 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 related to 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. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired, constructed, or developed the asset or assumed the 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 acquisition 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 on an historical cost basis or a current value basis. 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 an 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 Standard:**

    (a) **Historical cost basis (Appendix A: Historical cost);**

    (b) **Current operational value basis (Appendix B: Current operational value);**

    (c) **Cost of fulfillment basis (Appendix C: Cost of fulfillment); and**

    (d) **Fair value basis (Appendix D: Fair value).**

Historical Cost Basis

21. The historical cost basis is an entry, entity-specific value. The historical cost basis 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 Basis

23. Current operational value provides monetary information about assets, and related amortization, depreciation, etc., 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 existing use and condition.

25. Current operational value differs from fair value because it:

    (a) Is explicitly an entry price and includes all the costs that would necessarily be paid for the remaining service potential of an asset;

    (b) Reflects the value of an asset in its existing 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.

Cost of Fulfillment Basis

26. 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 fulfills 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.

27. 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.

28. 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.

Fair Value Basis

29. 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.

30. 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.

31. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly.

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, use 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

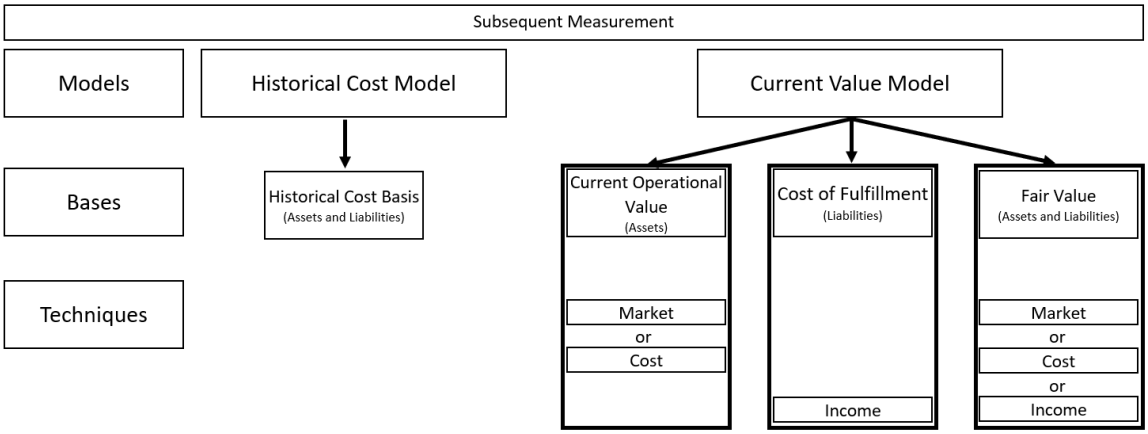
(b) A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).

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 Standard, except where specified differently in this 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 subsequent measurement framework based on the *Conceptual Framework: 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 29–31.

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, an asset providing an equivalent service as the existing asset.

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, constructed, developed or disposed of the asset or incurred, transferred, or settled the 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, construction, or development, 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 assumed, when an asset is disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring, constructing, or developing an asset or assuming a liability are a feature of the transaction in which the asset was acquired, constructed or developed, or the lability was assumed, such transaction costs incurred in entering into a transaction are included in entry-based measurement bases. Transaction costs that would be incurred in 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.

Disclosure

54. An entity shall disclose information that helps users of its financial statements assess the measurement basis, the measurement techniques and inputs used to develop those measurements.

55. To meet the objectives in paragraph 54, an entity shall apply the measurement disclosure requirements in the relevant IPSAS to which the measurement of the asset or liability applies.

Effective Date and Transition

Effective Date

56. **An entity shall apply this Standard for annual periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies this Standard earlier, it must disclose that fact.**

57. 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 Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of accrual basis IPSAS.

Transition

58. This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Appendix A

Historical Cost

This Appendix is an integral part of IPSAS 46.

Measurement

A1. The objective of the historical cost measurement basis 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. The historical cost basis is:

(a) The consideration given to acquire, construct and/or develop an asset plus transaction costs;

(b) The consideration received to assume a liability minus transaction costs; or

(c) The deemed cost of the asset or liability or other event that gave rise to it.

The consideration 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 assumed.

Initial Measurement

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

Subsequent Measurement

A4. After initial measurement, the gross carrying amount of an asset or liability measured using the historical cost basis 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 using the historical cost basis is updated to reflect changes to the item as noted in paragraphs 47 and 48.

Amortized Cost

A6. The historical cost basis is applied to financial instruments by measuring the instruments at amortized cost. 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.

Appendix B

Current Operational Value

This Appendix is an integral part of IPSAS 46.

Measurement

B1. The objective of a current operational value measurement is to estimate the amount an entity would pay for a non-financial asset at the measurement date. A current operational value measurement requires an entity to determine all of the following:

(a) The amount the entity would pay. This includes assessing the price that would be paid in an active market, or the cost the entity would incur, for the asset in the least costly manner.

(b) The remaining service potential of the asset. This considers the current condition of the asset.

(c) The asset (consistent with its unit of account). This includes assessing the asset's existing use and location.

(d) The measurement technique(s) appropriate for estimating (a) to (c) considering the availability of data that faithfully represents the assumptions that are specific to the entity.

B2. Current operational value provides an entity specific measurement of an asset held for its operational capacity in its existing use, location, and current condition.

(a) In the statement of financial position, current operational value reflects the amount an entity would pay at the measurement date for the remaining service potential of its existing asset.

(b) In the statement of financial performance, current operational value reflects the consumption of the asset in providing the service based on conditions at the measurement date. This differs from the historical cost basis which reflects consumption of the asset based on the prices when the asset was acquired, constructed, or developed, and initially recognized.

The Amount an Entity would Pay

B3. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date regardless of whether that price is directly observable or not.

B4. The amount an entity would pay is:

(a) The price to acquire the identical, or a similar, asset in an active market; or

(b) The costs that would be incurred to develop or produce the identical, or a similar, asset.

B5. When an active market exists for the identical, or a similar, asset, current operational value uses this price as the amount an entity would pay for the asset.

B6. When no active market exists, a reliable acquisition price for an identical, or similar, asset will generally not exist. Current operational value will then need to be estimated based on the costs to develop or produce the asset using available price information. For example, many military assets, such as an aircraft, generally do not have active markets. Such assets often cannot be acquired as a finished product that is identical, or similar, to the aircraft under valuation. Measuring the cost of each part of the asset, such as the fuselage, engine, electronics etc., and the cost to assemble

them into the same, or similar, aircraft, adjusted for the age, functionality, and condition, will generally be necessary to estimate the aircraft's current operational value.

Entry Price

B7. The current operational value of an asset represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.

Entity-Specific Value

B8. An entity shall measure the current operational value of an asset using assumptions from the entity's perspective, based on the way the existing asset is used. Those assumptions shall reflect the economic, legal and other constraints that affect the possible uses of the asset. For example, where an entity is using an asset for a particular purpose, the entity will consider the amount it would pay for that type of asset based on its existing use and not consider the value for alternative uses for that asset.

The Least Costly Manner

B9. A current operational value measure assumes the amount an entity would pay for the remaining service potential of an asset at the measurement date is the least costly amount for the asset.

B10. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly amount, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.

B11. Current operational value does not reflect the costs that might be incurred if an urgent necessity to replace the remaining service potential of an asset arose as a result of some unforeseeable event.

Observable Inputs

B12. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a current operational value in both cases is the same—to estimate the amount the entity would pay for the remaining service potential of the asset based on conditions at the measurement date (i.e., an *entry price* at the measurement date from the perspective of the entity that holds the asset).

B13. When a price for an identical, or similar, asset is not observable, an entity measures current operational value using another valuation technique that uses observable inputs, where feasible, such as when external resources are available and can be used.

B14. Because current operational value is an entity-specific value, it is measured using the assumptions from the entity's perspective. These entity-specific assumptions may result from information that is not available publicly. For example, the cost to construct an asset may include labor costs of employees of the entity, as opposed to contract workers. As a result, an entity's intention in how costs are incurred to construct an asset is relevant when measuring current operational value.

B15. In practice, there may be little difference between the assumptions that market participants would use and those that an entity itself uses. For example, where the amount that would be paid for a non-specialized asset is generally the same regardless of its existing use, the assumptions a market participant would use would be consistent with those in an entity-specific valuation.

Remaining Service Potential

B16. Current operational value is the amount the entity would pay for the remaining service potential of an asset. The remaining service potential of the asset takes into account the current age, functionality, and condition of the asset held by the entity.

B17. In order to reflect the current age, functionality, and condition, the following factors are considered:

(a) Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use.

(b) Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent.

(c) Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.

The Asset

B18. Current operational value is the amount the entity would pay for the remaining service potential of a specific asset. The following key aspects affect the measurement of an asset's current operational value:

(a) The existing asset;

(b) The existing use of the asset; and

(c) The existing location of the asset.

Existing Asset

B19. Current operational value assumes the entity will continue to deliver goods and/or services by using the identical, or a similar, asset.

B20. The identical, or a similar, asset delivers goods and/or services in the same manner as the asset being measured. For example, a power authority that delivers electricity measures the amount it would pay for the remaining service potential of its generation facilities based on the nature of its existing facilities. If the generation facilities are solar farms, the amount an entity would pay for the remaining service potential of the asset is based on a solar farm as opposed to an alternative asset, such as a wind farm, that could also deliver the service.

Existing Use of the Asset

B21. Current operational value is the amount the entity would pay for the remaining service potential of an asset based on its existing use. 'Existing use' is the way an asset, or group of assets, is used and 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 deliver health care services rather than for commercial purposes.

B22. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, the existing use of a building operated as a school, is for the delivery of educational services. Alternative uses, such as the operation of the building as an office block held for rental at market rates are not considered. The existing use may be, but is not necessarily, the highest and best use.

B23. Any unused portion of the asset in its existing use is evaluated to determine whether the unused portion is held for a specific operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, and/or functional limitations. Unused portions based on the existing use of the asset, which are held for a specific operational purpose associated with the asset and would be replaced, are included in measuring the asset's current operational value.

B24. Where an unused portion of an asset has no specific operational purpose associated with the asset, an entity determines whether it has an alternative use. Where an alternative use is currently available, the portion of the asset is valued as a separate asset using an appropriate measurement basis. Where the unused portion of an asset has no alternative use, it is included in the current operational value, but has no value.

Existing Location of the Asset

B25. The asset's current operational value assumes that the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated or used.

B26. The current operational value of an asset that cannot be physically moved reflects the value of the physically immovable asset in its existing location. For example, a hospital operating in a city center that could be situated in the suburbs, due to the migration of the population, is measured based on the amount an entity would pay for the hospital at its existing location (e.g., the amount required for a building includes construction costs, permits, regulations, etc. based on costs that would be paid at the existing location).

B27. The current operational value of a physically movable asset reflects the location from which the entity uses the asset and/or the market the entity has access to. For example, the furniture and equipment in a hospital operating in a city center is measured based on the amount an entity would pay for furniture and equipment for the hospital at its current city center location.

Measurement Techniques

B28. The objective of using a measurement technique is to estimate the amount an entity would pay for the remaining service potential of an asset based on conditions at the measurement date. The widely used measurement techniques are the market approach and the cost approach. The main aspects of those approaches are summarized in paragraphs B32–B36. An entity shall use measurement techniques consistent with one or other of those approaches to measure the current operational value.

B29. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, using observable inputs, where feasible.

B30. In some cases, current operational value cannot be determined directly by observing prices in an active market and must be determined 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, functionality, and condition of the asset held by the entity.

B31. 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 remaining service potential of the asset in the circumstances.

Market Approach

B32. Applying the market approach to measure the current operational value of an asset requires the existence of an active market with transactions involving identical or similar assets.

B33. The market approach uses an asset price from an orderly transaction in the principal market (or the market that minimizes the amount that would be paid to acquire the asset) for the entity at the measurement date.

B34. 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.

Cost Approach

B35. The current operational value of an asset should be established using the cost approach 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 need to be applied.

B36. When the existence of market transactions involving identical or similar assets does not exist, current operational value is the cost to develop or produce the identical, or a similar, asset.

Modern Equivalent Asset

B37. When no cost information is available for a similar or identical asset, or when the existing asset would not be replaced with an identical asset, an entity may estimate current operational value by calculating the cost of a modern equivalent asset and then making deductions for obsolescence and optimization. It may be necessary, therefore, to estimate the current operational value of an asset by drawing on the current price of a modern equivalent asset that provides an equivalent service as the existing asset in its existing use, adjusted to reflect the current age, condition and functionality of the asset held by the entity.

B38. Applying the cost approach means current operational value cannot be determined by observing prices in an active market. However, measuring the current operational value using the cost approach continues to require the use of relevant observable inputs for parts of the asset, where the entity would acquire those parts from the market.

Appendix C

Cost of Fulfillment

This Appendix is an integral part of IPSAS 46.

Measurement

C1. The objective of the cost of fulfillment measurement is to estimate the value of a liability assuming the entity will fulfill the liability 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.

The Least Costly Manner

C2. The cost of fulfillment assumes that the liability is settled by the entity in the least costly manner.

C3. The cost of fulfillment represents the amount the entity is obligated to incur to settle the liability. This liability represents the minimum amount an entity will incur assuming the entity completely satisfies the liability. For example, an entity may have a liability 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 liability 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 an amount in excess of the cost to fulfill.

C4. The entity must have the ability to access the fulfillment method that results in the liability 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.

C5. 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 liability. 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.

C6. 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 liability and the entity has the ability to access the fulfillment method (see paragraph C4).

C7. Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any margin above costs, because any such margin above costs 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

C8. 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 objectives.

C9. 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]

C10. When estimating 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

C11. The cost of fulfillment estimates the cost assuming the entity settles the liability.

C12. 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 liability. 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.

C13. 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.

C14. 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.

C15. Where fulfillment of the liability 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 the income

[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.

approach. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the liability to be settled within one year.

Settling the Liability

C16. The cost of fulfillment is the cost that the entity expects to incur to settle its liability in the normal course of operations.

C17. In estimating the cost to settle its liability in the normal course of operations, the entity assumes the liability will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.

C18. 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 obligation to settle the liability at the expected fulfillment date.

C19. The cost of fulfillment shall not include the non-performance risk of the entity to settle its liability. 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 Technique

C20. The cost of fulfilment, cannot be observed directly in an active market. It is determined using the income approach measurement technique.

C21. An entity shall use the income approach. 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.

C22. The objective of using the income approach 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 main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs C23–C48.

Income Approach

C23. 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.

C24. Paragraphs C25–C48 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

C25. The estimates of outflows of resources used to measure 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 C30–C34);

(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 C35); and

(d) Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs C36–C40).

Uncertainty and the Expected Value Approach

C26. 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).

C27. 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.

C28. Paragraph C27 requires the estimate of expected values to 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.

C29. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph C2 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 C25(b))

C30. 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

C31. 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 D59. In accordance with Appendix D, 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

C32. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.

C33. 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.

C34. 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 C25(c))

C35. 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 C25(d))

C36. 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.

C37. 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 C25(d))

C38. 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 thereby 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.

C39. 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.

C40. 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

C41. 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.

C42. 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.

C43. 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.

C44. 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 the Income Approach

General Principles

C45. The income approach used in a cost of fulfillment measurement reflects entity-specific assumptions rather than assumptions used by market participants.

C46. The cost of fulfillment measurement is an entity-specific valuation. When an income approach is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph C10). 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.

C47. 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.

C48. When a liability will be settled 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.

Appendix D

Fair Value

This Appendix is an integral part of IPSAS 46.

Measurement

D1. 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

D2. 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.

D3. 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.

D4. 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.

D5. 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.

D6. 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.

D7. 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.

D8. 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

D9. 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.

D10. 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

D11. 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.

D12. 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.

D13. 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

D14. 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.

D15. 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.

D16. 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.

D17. 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

D18. 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.

D19. 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.

D20. 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

D21. 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.

D22. 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).

D23. 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 D25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.

D24. 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.

D25. 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

D26. 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.

D27. 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.

D28. 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 D31–D36. An entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.

D29. 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.

D30. 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

D31. 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.

D32. 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

D33. 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

D34. 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

D35. 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 D36);

(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

D36. Paragraphs D37–D54 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

D37. 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

D38. Present value techniques differ in how they capture the elements in paragraph D37. 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

D39. 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.

D40. 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.

D41. 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 D42–D46) 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 D49) uses risk-adjusted expected cash flows and a risk-free rate.

(c) Method 2 of the expected present value technique (see paragraph D50) 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

D42. 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).

D43. 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).

D44. 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).

D45. 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.

D46. 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

D47. 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).

D48. 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.)

D49. 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.

D50. 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.

D51. 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

D52. 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.

D53. 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).

D54. 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

D55. Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

D56. 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.

D57. 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 D66) 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 D65.

Fair Value Hierarchy

D58. 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 D62–D89). 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).

D59. 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.

D60. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurement techniques (see paragraph D27). 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.

D61. 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

D62. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

D63. 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 D65.

D64. 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.

D65. 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.

D66. 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

D67. 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.

D68. 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.

D69. 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.

D70. 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.

D71. Paragraph D72 describes the use of Level 2 inputs for particular assets and liabilities.

D72. 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

D73. Level 3 inputs are unobservable inputs for the asset or liability.

D74. 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.

D75. 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 D76–D86).

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

D76. 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).

D77. 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).

D78. This Appendix does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs D26–D29 and D31–D40 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 D48). 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.

D79. 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.

D80. 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.

D81. 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

D82. 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.

D83. 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

D84. 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.

D85. 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.

D86. 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.

Level 3 Inputs

D87. 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.

D88. Paragraph C89 describes the use of Level 3 inputs for particular assets and liabilities.

D89. 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 liability (including market participants' expectations about the costs of fulfilling the liability and the compensation that a market participant would require for taking on the liability 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.

Appendix E

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

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

…

Structure and Content

…

Notes

…

Disclosure of Accounting Policies

…

133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, the historical cost basis, ~~current cost, net realizable value,~~ current operational value, cost of fulfillment, or fair 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.

…

Key Sources of Estimation Uncertainty

…

141. 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 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 current operational value or fair value based on ~~recently observed market prices~~ a quoted price in an active market for an identical asset or liability. ~~(their~~ Such current operational values or 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

…

153P. **Paragraphs 133, 134, 141, and 143 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 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 IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods**

beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

…

Appendix A

Foreign Currency Transactions and Advance Consideration

This Appendix is an integral part of IPSAS 4.

…

Scope

…

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 41F 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 IPSAS 46, *Measurement*.

…

Effective Date

…

41F. **Paragraph 11 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 an 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 IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 10 and 47 are amended. Paragraphs 50A–50F, and 51H are added. New text is underlined and deleted text is struck through.

…

Definitions

…

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

47. **The financial statements shall disclose:**

    (a) **The accounting policies adopted in measuring inventories, including the cost formula used;**

    (b) **The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**

    (c) **The carrying amount of inventories carried at fair value less costs ~~to sell~~ of disposal;**

…

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; 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.

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 IPSAS 46, *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 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); 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).

50D. An entity shall determine the appropriate disaggregation 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 disaggregation 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 the appropriate disaggregation of inventories for which disclosures about fair value measurements should be provided requires judgment. 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 disaggregation for an inventory, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation 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

…

51H. **Paragraphs 10 and 47 were amended, and paragraphs 50A–50F were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual**

financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 IPSAS 46, *Measurement*

BC9. The IPSASB developed IPSAS 46 to ensure that measurement bases are 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 IPSAS 46.

BC10. IPSAS 46 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 IPSAS 46 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 will allow stakeholders to clearly consider the implications of the proposal.

Amendments to IPSAS 16, *Investment Property*

Paragraphs 33, 38, 39, 40, 41, 41A, 41C, 42, 49, 49A, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 and the related headings above paragraphs 42, 62, 65, 86, 87, 89A, 90, 97 and 100 are amended. Paragraphs 89A–89F, and 101K are added. Paragraphs 45–48, 51–56, 58, 60, and 86(d) are deleted. New text is underlined and deleted text is struck through.

…

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).

…

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~~ measurements 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 41A, 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 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.

41A. **An entity may:**

(a) **Choose either the ~~fair~~ current value model or the historical cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**

(b) **Choose either the ~~fair~~ current value model or the historical cost model for all other investment property, regardless of the choice made in (a).**

…

41C. If an entity chooses different models for the two categories described in paragraph 41A, sales of investment property between pools of assets measured using different models shall be recognized at fair value and the cumulative change in fair value shall be recognized in surplus or deficit. Accordingly, if an investment property is sold from a pool in which the ~~fair~~ current value model is used into a pool in which the historical cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

~~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.

…

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 D of IPSAS 46, 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.~~

49A. When a lessee uses the ~~fair~~ current value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying asset, at fair value.

50. IPSAS 43 specifies the basis for initial recognition of the cost of an investment property held by a lessee as a right-of-use asset. Paragraph 42 requires investment property held by a lessee as a right-of-use asset to be remeasured, if necessary, to fair value if the entity chooses the ~~fair~~ current value model. When lease payments are at market rates, the fair value of investment property held by a lessee as a right-of-use asset at acquisition, net of all expected lease payments (including those relating to recognized lease liabilities), should be zero. Thus, remeasuring a right-of-use asset from cost in accordance with IPSAS 43 to fair value in accordance with paragraph 42 (taking into account the requirements in paragraph 59) 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 value basis ~~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]

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 value ~~model~~ basis, 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 lease revenue, because the entity recognizes it as a separate liability or asset.

    (d) The fair value of investment property held by a lessee as a right-of-use asset reflects expected cash flows (including variable lease payments that are 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 value ~~model~~ basis.

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]

…

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 for owned investment property or in accordance with IPSAS 43 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply IPSAS 17 or IPSAS 43 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 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.

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 or IPSAS 43, 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 using the ~~fair~~ current value model.

…

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**

(a) In accordance with IPSAS 43 if it is held by a lessee as a right-of-use asset;

(b) In accordance with the requirements in IPSAS 17 for the historical cost model if it is held by an owner as an owned investment property; and

(c) In accordance with IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale).

…

Transfers

…

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 historical 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

…

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) [Deleted]

(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 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 or in accordance with IPSAS 43, 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.

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 IPSAS 46, *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

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 the appropriate disaggregation 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 disaggregation 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 the appropriate disaggregation of investment property for which disclosures about fair value measurements should be provided requires judgment. 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 disaggregation of investment property, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation 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.

…

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 D of IPSAS 46), 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

…

101K. **Paragraphs 33, 38, 39, 40, 41, 41A, 41C, 42, 49, 49A, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 and the related headings of paragraphs 42, 62, 65, 86, 87, 89A, 90, 97 and 100 were amended, paragraphs 89A–89F were added, and paragraphs 45–48, 51–56, 58, 60, and 86(d) were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments**

for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

…

Basis for Conclusions

…

Revision of IPSAS 16 as a result of IPSAS 46, *Measurement*

BC12. IPSAS 46, *Measurement*, issued in May 2023, 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 IPSAS 46, remove guidance on measurement in IPSAS 16 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

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

Paragraphs 2, 10 and 29 are amended. Paragraphs 10A and 82M are added. New text is underlined and deleted text is struck through.

Scope

…

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except:**

   (a) Inventories (see IPSAS 12, Inventories);

   (b) Assets arising from construction contracts (see IPSAS 11, Construction Contracts);

   (c) Financial assets that are included in the scope of IPSAS 41, Financial Instruments;

   (d) Investment property that is measured using the ~~fair~~ current value model (see IPSAS 16, Investment Property);

   (e) …

…

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 IPSAS 45, *Property, Plant, and Equipment* and the revaluation model in IPSAS 31, *Intangible Assets*.

(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 of disposal 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 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

…

82M. **Paragraphs 2, 10 and 29 were amended and paragraph 10A was added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 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 IPSAS 46, 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, with 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 IPSAS 46 to measure fair value. The IPSASB agreed to update the definition of fair value in IPSAS 31 to align with IPSAS 46, and replaced IPSAS 17 with IPSAS 45, *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 IPSAS 46, *Measurement*

BC28. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all 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 IPSAS 46. 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.

…

Comparison with IAS 36 (2004)

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.
- ~~IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the allowed alternative treatment in IPSAS 17. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.~~
- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRSs. These have not been excluded from IPSAS 21 because there are not equivalent IPSASs. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, and (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*.

- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.
- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “revenue,” “recoverable service amount”, and “statement of financial performance,” in IPSAS 21. The equivalent terms in IAS 36 are “income,” “recoverable amount,” and “income statement.”

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

Paragraph 32 is amended. Paragraph 47G 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 an historical cost model and current value~~s~~ 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

…

47G. **Paragraph 32 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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:

(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 value~~s~~ model for certain classes of assets and liabilities;

(b) …

…

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

Paragraphs 42 and 124I are 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~~ current value as at the date of acquisition.**

…

Effective Date

…

124I. **Paragraph 42 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Basis for Conclusions

Measurement of Assets

BC16. Prior to the effective date of IPSAS 46, *Measurement*, ~~This~~ this Standard ~~requires~~ required that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. The IPSASB ~~is of the view that this is~~ had concluded the use of fair value was appropriate to reflect the substance of the transaction and its consequences for the recipient. In an exchange transaction, the cost of acquisition is a measure of the fair value of the asset acquired. However, by definition, in a non-exchange transaction the consideration provided for the acquisition

of an asset is not approximately equal to the fair value of the asset acquired. Fair value most faithfully ~~represents~~ represented the actual value the public sector entity accrues as a result of the transaction. Initial measurement of assets acquired through non-exchange transactions at their fair value ~~is~~ was consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB ~~has~~ had made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSASs with the requirements of this Standard.

BC16A. As part of the development of IPSAS 46, *Measurement*, the IPSASB decided, in the case of property, plant, and equipment held for its operational capacity, deemed cost should be clarified to include current operational value. The IPSASB agreed to require the use of current operational value on initial measurement where the transaction price does not faithfully reflect the substance of the transaction for property, plant, and equipment held for their operational capacity. While fair value continues to faithfully represent the value to the public sector entity of property, plant, and equipment held for its financial capacity, current operational value faithfully represents the value of property, plant, and equipment held for their operational capacity.

…

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, and the related heading of paragraphs 41 are amended. Paragraphs 10A, 66A and 126O are added. Paragraphs 38–40 are deleted. New text is underlined and deleted text is struck through.

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Scope

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8. This Standard does not apply to inventories and cash-generating assets arising from construction contracts, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) 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 45, *Property, Plant, and Equipment* and 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-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

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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 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 fair value less costs ~~to sell~~ of disposal because there is no basis for making a reliable[3] estimate of the ~~amount obtainable from the sale of 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~~

[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.

~~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]

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

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Composition of Estimates of Future Cash Flows

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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 and Goodwill

…

Identifying the Cash-Generating Unit to which an Asset Belongs

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

    (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 ~~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

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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:**

    (a) **Its fair value less costs ~~to sell~~ <u>of disposal</u> (if ~~determinable~~ <u>measurable</u>);**

    …

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~~ <u>of disposal</u> 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~~ <u>of disposal</u> 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) **<u>There are observable indications that</u> ~~The~~ <u>the</u> 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~~ <u>of disposal</u> 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~~ <u>of disposal</u>, a change in estimate of the components of fair value less costs ~~to sell~~ <u>of disposal</u>.

…

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:**

…

(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 IPSAS 46) 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;**

…

(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 IPSAS 46) 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

…

126O. **Paragraphs 8, 10, 13, 25, 31-36, 41, 42, 66, 78, 85, 87, 89, 92, 94, 100, 104, 120, and 123 and the related heading of paragraph 41 were amended, paragraphs 10A and 66A were added, and paragraphs 38–40 were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period**

beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

…

Basis for Conclusions

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

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 IPSAS 46, *Measurement*

BC22. IPSAS 46, *Measurement*, issued in May 2023, 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 IPSAS 46, 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

…

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 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.

Comparison with IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- ~~IPSAS 26 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the revaluation model in IPSAS 17, *Property, Plant, and Equipment*. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.~~
- ~~IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.~~
- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs ~~to sell~~ of disposal. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the redesignation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.

- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “revenue” and “statement of financial performance.” The equivalent terms in IAS 36 are “income” and “income statement.”

Amendments to IPSAS 27, *Agriculture*

Paragraphs 19, 20, 26, 29 and 34 are amended. Paragraphs 46A–46F and 56J are 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 of ~~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]

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. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IPSAS**

44, *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

…

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.**~~ **[Deleted]**

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.**~~ **[Deleted]**

Current Value Measurements

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 IPSAS 46, *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;

(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 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 the appropriate disaggregation 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 disaggregation 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 the appropriate disaggregation of agricultural assets for which disclosures about fair value measurements should be provided requires judgment. 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 disaggregation for an agricultural asset, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation 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

…

56J. **Paragraphs 19, 20, 26, 29 and 34 were amended, paragraphs 46A–46F were added, and paragraphs 14, 21–25, 27, 45 and 46 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Basis for Conclusions

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

…

Revision of IPSAS 27 as a result of IPSAS 46, *Measurement*

BC18. IPSAS 46, *Measurement*, issued in May 2023, 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 IPSAS 46, and to refer preparers to the guidance in that Standard.

Amendments to IPSAS 28, Financial Instruments: Presentation

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

…

Effective Date

…

60I. **Paragraph AG56 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 52M 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:

(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 IPSAS 46, *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;

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

30D. An entity shall determine the appropriate disaggregation 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 disaggregation 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 the appropriate disaggregation of financial instruments for which disclosures about fair value measurements should be provided requires judgment. 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 disaggregation for a financial instrument, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation 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 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 move-ment 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 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 and Transition

…

52M. **Paragraphs 8 and 34 were amended, paragraphs 30A–30I were added, and paragraphs 31–33 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 (paragraph~~s 31–34~~)

…

IG15. IPSAS 30 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a measurement ~~valuation~~ technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 33(b). (Disclosure of comparative information is also required, but is not included in the following example).

…

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

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, and the headings of paragraphs 73, 74, and 123, are amended. Paragraphs 123A–123F and 132N 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

…

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~~ current value 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 IPSAS 46) 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:**

    …

    (a) **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.**

    (b) **…**

…

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**

(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 IPSAS 46, *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

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).

123D. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of intangible assets (as determined in paragraph 71) is required 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 judgment. 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 asset, 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

…

132N. **Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123, and 124 , and the related headings of paragraphs 73, 74, and 123 were amended, and paragraphs 123A–123F were added by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Basis for Conclusions

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

…

Current Value ~~Revaluation~~ Model

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 IPSAS 46, *Measurement*

BC14. IPSAS 46, issued in May 2023, 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 IPSAS 46, and to refer preparers to the guidance in that Standard.

BC15. IPSAS 46 introduced current operational value, a public sector current value measurement basis. This measurement basis is primarily applied when assets are held for their operational capacity. When IPSAS 46 was issued, the IPSASB concluded intangible assets are 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 9, 64–72, 96B, and 148 are amended. Paragraphs 41B, 64A, 152A–152F and 154M are added. New text is underlined and deleted text is struck through.

…

Definitions

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

Date of adoption of IPSASs is the date an entity adopts accrual basis IPSASs for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSASs and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

~~Deemed cost is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.~~ [deleted]

…

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

…

41A. **A first-time adopter shall apply the guidance in IPSAS 46 when measuring assets and/or liabilities.**

…

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

64. **A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:**

(a) **Inventory (see IPSAS 12);**

(b) **Investment property, if the first-time adopter elects to use the ~~historical~~ cost model in IPSAS 16;**

(ba) **Right-of-use assets (see IPSAS 43);**

(c) **~~Property, plant, and equipment (see IPSAS 17);~~** [deleted]

(d) **Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:**

(i) **The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**

(ii) **The criteria in IPSAS 31 for revaluation (including the existence of an active market);**

(e) **Financial Instruments (see IPSAS 41); or**

(f) **Service concession assets (see IPSAS 32).**

64A. A first-time adopter may elect to measure property, plant, and equipment, at deemed cost, being current operational value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets and liabilities is not available. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

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 current operational value, or 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.

66. The use of deemed cost is not considered a revaluation or the application of the ~~fair~~ current value model for subsequent measurement in accordance with other IPSASs.

67. **A first-time adopter may elect to use the revaluation amount of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**

(a) **Fair value, when the property, plant, and equipment is held for its financial capacity; or**

(ab) **Current operational value, when the property, plant, and equipment is held for its operational capacity.**

(b) **~~Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.~~ [deleted]**

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at fair value, or current operational value, at one particular date because of a specific event:

    (a) If the measurement date is at or before the date of adoption of IPSASs, a first-time adopter may use such event-driven fair value, or current operational value, measurements as deemed cost for IPSASs at the date of that measurement.

    (b) If the measurement date is after the date of adoption of IPSASs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven fair value, or current operational value, measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.

69. In ~~determining~~ measuring the ~~fair~~ current value in accordance with paragraph 67, the first-time adopter shall apply the definition of fair value, or current operational value, and guidance in ~~other applicable IPSASs~~ IPSAS 46 ~~in determining the fair value of the asset in question. The fair value shall reflect conditions that existed at the date on which it was determined~~.

70. **If ~~reliable market-based evidence of fair~~ observable inputs of current 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~~ other measurement ~~alternatives~~ techniques in determining a deemed cost in accordance with IPSAS 46.~~:~~**

    ~~(a) For inventory, current replacement cost; and~~

    ~~(b) For investment property of a specialized nature, depreciated replacement cost.~~

Using Deemed Cost to Measure Assets Acquired Through a Non-Exchange Transaction

71. **A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its fair value, or for property, plant, and equipment at its current operational value or fair value, when reliable cost information about the asset is not available, and use that ~~fair~~ value as its deemed cost. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair 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.**

…

IPSAS 43, *Leases*

…

96B Notwithstanding the requirements in paragraph 96A, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of adoption of IPSASs for leases that meet the definition of investment property in IPSAS 16 and are measured using the ~~fair~~ current value model in IPSAS 16 from the date of adoption of IPSASs.

...

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~~ a current value measurement basis~~, 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~~ current 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;

(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 IPSAS 46, *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).

152D. An entity shall determine the appropriate disaggregation 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 disaggregation 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 the appropriate disaggregation of assets or liabilities for which disclosures about current operational value or fair value measurements should be provided requires judgment. 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 disaggregation for an asset or a liability, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation 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

…

154M. **Paragraphs 9, 64–72, 96B, and 148 were amended and paragraphs 41B, 64A, and 152A–152F were added by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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

Deemed Cost for Assets and/or Liabilities

…

BC84A. As part of the development of IPSAS 46, *Measurement*, additional guidance on deemed cost was developed. This guidance was developed to clarify the application of deemed cost in practice. Measurement guidance in IPSAS 46 is generic in nature, and was developed to supplement specific guidance in specific IPSAS. The deemed cost guidance in IPSAS 46 was developed to be consistent with the existing guidance in this Standard. However, where specific deemed cost guidance in this Standard exists, it takes precedent over the generic guidance in IPSAS 46.

…

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 IPSAS 46, 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 IPSAS 46 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 IPSAS 46, *Measurement*

BC127. IPSAS 46, issued in May 2023, 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 available for inventory or investment property. Since IPSAS 46 does not identify replacement cost as measurement bases, the IPSASB consider whether it should be replaced.

BC128. 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.

BC129. Furthermore, the IPSASB agreed to add current operational value as an alternative measurement basis to fair value for property, plant, and equipment. Current operational value was added to align the principles in this Standard with IPSAS 45, *Property, Plant, and Equipment,* which, as a result of IPSAS 45, permits measuring property, plant, and equipment at current operational value for subsequent measurement.

BC130. IPSAS 46 also provided additional generic guidance on the application of deemed cost. This guidance is consistent with the deemed cost guidance in this Standard (see BC84A).

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

Deemed Cost

…

Determining a Deemed Cost During the Period of Transition

…

IG42. For example, a first-time adopter adopts IPSAS on January 1, 20X1 and adopts the exemption that provides a three-year transitional relief period for the recognition of an investment property. Because the first-time adopter does not have reliable cost information about the historical cost of the investment property on the date of adoption of IPSASs, it decides to determine a deemed cost for the investment property. The deemed cost for the investment property is determined during the second reporting period (i.e., 20X2) in which the first-time adopter applies the exemption. IPSAS 33 allows

the first-time adopter to use the deemed cost determined during 20X2 in recognizing the investment property by adjusting the opening accumulated surplus and deficit on January 1, 20X2. The deemed cost as determined on January 1, 20X2 will be used in determining subsequent depreciation and in assessing impairment where the first-time adopter elects to apply the historical cost model as its subsequent measurement basis in applying IPSAS 16.

…

Amendments to IPSAS 34, Separate Financial Statements

Paragraphs 23A–23H 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.

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 IPSAS 46, *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

(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 the appropriate disaggregation 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 disaggregation 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 the appropriate disaggregation of investments for which disclosures about fair value measurements should be provided requires judgment. 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 disaggregation for an investments, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation 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.

…

Effective Date

…

32E. **Paragraphs 23A–23H were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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.

…

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 IPSAS 46, *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 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 the appropriate disaggregation of interests in other entities on the basis of the following:

(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 disaggregation 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 the appropriate disaggregation of interests in other entities for which disclosures about fair value measurements should be provided requires judgment. 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 disaggregation for an interests in other entities, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation 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 IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 8 and 144 are amended and paragraph 176D 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 IPSAS 46, *Measurement),* of plan assets (if any).**

…

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.

Short-Term Employee Benefits

…

Post-Employment Benefits—Defined Benefit Plans

…

Disclosure

…

Explanation of Amounts in the Financial Statements

…

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 IPSAS 46) and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:

…

Effective Date

…

176D. **Paragraphs 8 and 144 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Amendments to IPSAS 40, Public Sector Combinations

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

…

The Acquisition Method of Accounting

…

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 IPSAS 46, *Measurement*). Appendix D of IPSAS 46 provides guidance on measuring assets and liabilities at fair value.**

…

Effective Date

…

126G. **Paragraph 72 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 40

…

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of IPSAS 40

…

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and equipment using the historical cost model in ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. COB has previously adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model in ~~IPSAS 17~~ IPSAS 45.

IE168. RE adopts an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

…

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of IPSAS 40

…

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE has adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

…

Measurement Period in Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of IPSAS 40

…

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the ~~revaluation~~ current value model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the ~~revaluation~~ current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

…

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40.

IE192. …

Paragraph reference				

		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets reorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the ~~revaluation~~ current value model	12,116	17,954	30,070

…

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 IPSAS 46, *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 156G 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 IPSAS 46, *Measurement*: credit risk[4], currency risk, fair value, liquidity risk, market risk, equity instrument, financial asset, financial instrument, financial liability and puttable instrument.

…

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 IPSAS 46 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~~

[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).

~~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 and Transition

Effective Date

…

156F. **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 IPSAS 46, *Measurement* issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Application Guidance

This Appendix is an integral part of IPSAS 41.

…

Recognition and Derecognition

…

Transfers that Qualify for Derecognition

…

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~~ IPSAS 46 in addition to paragraph 25.

…

Examples

…

AG38. …

	~~Estimated fair~~ Fair 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 IPSAS 46. 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-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) …

…

Subsequent Measurement

…

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 fulfill 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

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:

(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

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.

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)

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 D59–D89 of IPSAS 46, *Measurement*). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.

AG143AB. IPSAS 46 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 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 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 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 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.~~

~~(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 IPSAS 46, *Measurement*

BC53. The IPSASB issued IPSAS 46, *Measurement*, in May 2023. 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–AG143AB).

…

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. IPSAS 46, *Measurement*, provides guidance on measuring liabilities at cost of fulfillment.**

…

Effective Date

…

35B. **Paragraphs 12 and AG17 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 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 C of IPSAS 46, *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 IPSAS 46, *Measurement*

BC168. The IPSASB issued IPSAS 46, *Measurement*, in May 2023. That Standard provides guidance on measuring liabilities at the cost of fulfillment, which is relevant to 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.

BC169. 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 IPSAS 46. 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 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 remain~~ing~~ 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 reach 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 estimated to remain~~ing~~ 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 are estimated to die~~d~~ 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:

	CU
Unemployment benefits to be paid to unemployed persons eligible at June 15, 20X2 and are estimated to remain~~ing~~ eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits to be paid to those unemployed persons eligible at June 15, 20X2 whose eligibility ~~had~~ was estimated to come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits to be paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045

	CU
Pro-rated unemployment benefits to be paid to those unemployed persons who were estimated to become ~~became~~ eligible between July 1, 20X2 and July 15, 20X2	4,812
Total	132,952

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]

IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:

(a) The unemployment benefits that will be paid to those unemployed persons eligible at June 15, 20X2 and who are estimated to remain~~ing~~ eligible at July 15, 20X2 (CU113,120);

(b) The pro-rated unemployment benefits that will be paid to those unemployed persons eligible at June 15, 20X2 whose eligibility is estimated to ~~had~~ come to an end by July 15, 20X2 (CU9,975); and

(c) The pro-rated unemployment benefits that will be paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).

IE50. The liability does not include the pro-rated unemployment benefits that will be paid to those who are estimated to become ~~became~~ eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.

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:

	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
Unemployment benefits estimated to be paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those estimated to remain~~ing~~ eligible and those whose eligibility ~~had~~ is estimated to 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

…

Amendments to IPSAS 43, *Leases*

Paragraphs 35 and 113 are amended. Paragraph 103C is added. New text is underlined and deleted text is struck through.

…

Lessee

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Measurement

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Other Measurement Models

35. If a lessee applies the fair value measurement basis in the current value model in IPSAS 16, *Investment Property* to its investment property, the lessee shall also apply that fair value ~~model~~ measurement basis to right-of-use assets that meet the definition of investment property in IPSAS 16.

…

Transition

…

Lessees

…

Leases Previously Classified as Operating Leases

…

113. Notwithstanding the requirements in paragraph 112, for leases previously classified as operating leases applying IPSAS 13, a lessee:

    (a) Is not required to make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9) that will be accounted for applying paragraph 7. The lessee shall account for those leases applying this Standard from the date of initial application.

    (b) Is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

    (c) Shall measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases applying IPSAS 13 and that will be accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16 from the date of initial application. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

…

Effective Date and Transition

Effective Date

103C. **Paragraphs 35 and 113 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43.

…

Revision of IPSAS 43 as a result of IPSAS 46, *Measurement*

…

IPSAS 43, *Leases*

…

Fair Value

BC64. In developing ED 75, the IPSASB had considered whether to retain the fair value definition consistent with IFRS 16 and IPSAS 13 or to include the fair value definition consistent with ~~ED 77~~ IPSAS 46, *Measurement*.

BC65. The IPSASB had noted that including the fair value definition consistent with ~~ED 77~~ IPSAS 46 might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback transactions.

…

Responses to ED 75, *Leases*

BC67. While the majority of respondents agreed with the ED 75 proposals, some respondents disagreed with the retention of the fair value definition from IFRS 16, *Leases* and IPSAS 13, *Leases* in ED 75 because:

(a) Of the possible confusion for users and preparers of having two different fair value definitions in IPSASB's literature;

(b) Sale and leaseback transactions (where the definition of fair value is used) occur infrequently in the public sector;

(c) Of the benefits of the consistent use of terminology in IPSASB literature; and

(d) Most countries are still in the process of implementing IPSAS and, therefore, the change to the ~~ED 77~~ IPSAS 46 fair value definition would not cause significant change for their accounting system.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 46.

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 are 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 IPSAS 46, Measurement and Other IPSAS

BC10. During the development of this Standard, the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one IPSAS, in order to provide a comprehensive "one stop shop". However, the IPSASB decided:

(a) Other IPSAS should identify which measurement basis should be applied and any specific measurement requirements relating to the assets or liabilities covered by the IPSAS, and address impairment, depreciation, and amortization.

(b) IPSAS 46 should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework. For example, IPSAS 45, *Property, Plant, and Equipment*, allows property, plant, and equipment measured at historical cost, current operational value, or fair value. The application guidance for these measurement bases is located in this Standard.

The objective of this Standard 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 basis, current operational value basis, cost of fulfillment basis, and fair value basis because the greater need for guidance relates to these four measurement bases.

Objective (paragraph 1)

BC12. The Standard'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. This Standard 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 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. The Standard's scope conveys the definitions of measurement bases and the 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 Standard should include guidance on the measurement of assets held for sale. 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 and issued a separate IPSAS (IPSAS 44, *Non-Current Assets Held for Sale and Discontinued Operations*).

Initial Measurement (paragraphs 7–16)

BC17. The IPSASB discussed the applicability of the subsequent measurement framework to initial and subsequent measurement. Unless otherwise required or permitted by another IPSAS, the IPSASB concluded measurement bases identified in the subsequent measurement framework are applicable to initial measurement at deemed cost when the transaction price does not faithfully present relevant information about the entity in a manner that is useful in holding the entity accountable, and for decision-making purposes.

BC18. On the transaction date an asset or liability is initially measured at its transaction price, plus or minus transaction costs, or, as noted in paragraph BC17, at a deemed cost. This approach is applied regardless of whether the current value model or historical cost model is subsequently applied when measuring assets and liabilities in the financial statements.

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 basis 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.

Deemed Cost

BC21. With the development of current operational value for assets held for operational capacity, the IPSASB decided deemed cost should be an amount used as a surrogate for transaction price. The definition of deemed cost in IPSAS 33, *First-Time Adoption of Accruals Basis International Public Sector Accounting Standards (IPSASs)*, was replaced to reflect the IPSASB's decision and allows for initial measurement of property, plant, and equipment transactions where the transaction price does not faithfully present relevant information to be measured at current operational value, in addition to fair value.

BC22. The IPSASB concluded the usefulness of information that current operational value provides financial statement users in subsequent measurement for property, plant, and equipment, held for their operational capacity also applies at initial measurement.

BC23. The IPSASB concluded that:

(a) Fair value faithfully represents the value the public sector entity accrues as a result of the transaction when the property, plant, and equipment, is held for its financial capacity; and

(b) Current operational value faithfully represents the value of the property, plant, and equipment, to the public sector entity when the transaction occurs for assets held for their operational capacity.

Amendments to Other IPSAS

BC24. The initial measurement guidance developed in this Standard, is principles-based and broadly applicable across the IPSAS suite of standards. When making amendments to other IPSAS as a result of IPSAS 46, the IPSASB agreed the initial measurement requirements in individual IPSAS would not be replaced by the initial measurement principles in IPSAS 46. 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

BC25. 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.

BC26. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).

BC27. The Conceptual Framework states that it is not possible to identify a single measurement model that best meets the measurement objective and acknowledges both historical cost and current value measurements models.

BC28. 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 Standard, 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.

BC29. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Exposure Draft on the Conceptual Framework and the Exposure Draft on Measurement advocated the continued widespread use of the historical cost basis, 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.

BC30. 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.

Determining the Measurement Model

BC31. Some respondents to the Measurement Exposure Draft recommended guidance be developed explaining how to determine the appropriate measurement model. The IPSASB agreed clarifications would support the consistent application of the guidance and developed Implementation Guidance to expand on the accounting policy choice.

BC32. The IPSASB noted the historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

(a) A more senior level of government for all entities in a sector or jurisdiction; or

(b) An applicable regulatory framework in the sector or jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity considers the information it believes best meets the qualitative characteristics.

BC33. In selecting the appropriate measurement model, the reporting entity should consider whether it wants its asset or liability to reflect the value of the transaction at the date of initial recognition or the current value of the same transaction on the date of measurement.

Historical Cost (Appendix A)

Measurement Techniques

BC34. The IPSASB agreed initial measurement of an asset or a liability should be at its transaction price, adjusted for transaction costs, or deemed cost. Historical cost is the consideration given to acquire, construct, or develop an asset, plus transaction costs, or the consideration received to assume a

liability, minus transaction costs, at the time of the asset's acquisition, construction, or development, or when the liability is incurred.

BC35. Since the measurement framework applies only to subsequent measurement, no measurement techniques apply to the historical cost basis. This is because after initial measurement, the gross carrying amount of an asset or liability measured at the historical cost basis remains unaffected by changes in the underlying current market conditions (i.e., no measurement techniques are applied).

Financial Instruments Measured at Historical Cost

Amortized Cost

BC36. 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 the historical cost basis.

Current Operational Value (Appendix B)

BC37. 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.

BC38. 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.

BC39. 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.

BC40. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. Holding an asset to meet a policy objective often results in an asset being held in a capacity other than one that satisfies its highest and best financial use. For example, an entity may have a policy 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 policy objective.

BC41. 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 existing 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 pay at the measurement date for the remaining service potential of 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 the historical cost basis, which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired, constructed, or developed.

Developing a Public Sector Specific Measurement Basis

BC42. In responding to comments received to the April 2019 Measurement Consultation Paper, the IPSASB developed a new measurement basis that addressed the challenges in measuring most public sector assets. Specifically, the measurement basis considered how to present assets held for their operational capacity in the financial statements that provided users of those reports with relevant and useful information.

BC43. The Measurement Exposure Draft, issued in April 2021, defined current operational value as the value of an asset used to achieve the entity's service delivery objectives at the measurement date. The Exposure Draft clarified the definition by proposing several key principles that were relevant for a public sector measurement basis. These principles included:

(a) Current asset;

(b) Current use of the asset;

(c) Current location of the asset;

(d) Service policy objective of the asset;

(e) Entry price;

(f) Least costly manner;

(g) Current market conditions;

(h) Use of observable inputs; and

(i) Entity-specific valuation.

BC44. The Exposure Draft included an Alternative View proposed by two members of the IPSASB. The Alternative View disagreed with the proposal in the Exposure Draft as follows:

(a) The income approach is not appropriate as a measurement technique for current operational value;

(b) The lack of clarity about the accounting for surplus capacity;

(c) The proposed definition of current operational value could permit either entry or exit values; and

(d) The lack of clarity in the proposed definition of current operational value risks not achieving the qualitative characteristics of financial reporting.

BC45. In responding to the Exposure Draft, stakeholders were clear a public sector measurement basis was necessary. Respondents strongly supported the inclusion of fair value, aligned with IFRS 13, but echoed responses to the Consultation Paper, that fair value would not provide financial statement users with relevant and useful information for assets held for their service capacity. While there was support for current operational value, respondents indicated further clarification on its application in practice was necessary.

BC46. In responding to stakeholder comments, the IPSASB updated current operational value by:

(a) Removing the income approach as a separate measurement technique for current operational value. The IPSASB agreed it is unlikely discounting future cash flows, whether inflows or outflows, would be relevant in determining the amount an entity would pay for the remaining service potential of an asset.

(b) Clarifying when unused capacity is included in current operational value by developing implementation guidance, including a decision tree and examples.

(c) Revising the definition of current operational value to the amount an entity would pay for the remaining service potential of an asset at the measurement date. This clarified current operational value is an entry price and gave those applying the measurement basis a clearer understanding of the basis.

BC47. Finally, in developing the current operational value for this Standard, the IPSASB revisited each principle proposed in the Exposure Draft. The IPSASB reaffirmed each principle was necessary to present relevant and useful information regarding assets held for their operational capacity. The IPSASB also clarified each principle to enhance understandability and facilitate application in practice. The following principles are applicable to current operational value:

(a) Existing asset;

(b) Existing use;

(c) Existing location;

(d) Remaining service potential;

(e) Entry price;

(f) Least costly manner;

(g) Current market conditions;

(h) Use of observable inputs; and

(i) Entity-specific valuation.

Current Operational Value – Amount the Entity Would Pay

BC48. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. A strong indication of the value of the operational capacity of an asset is the amount the entity would pay for the remaining service potential of the asset to achieve its policy objective. The IPSASB decided current operational value should reflect this concept by estimating the amount that would be paid for the remaining service potential of an asset (i.e., an entry price) rather than using an exit price (i.e., the amount that could be received to sell the asset), which does not necessarily reflect the amount that would be paid for the remaining service potential of an asset.

BC49. Estimating the amount that would be paid for the remaining service potential of an asset (i.e., the entry price) requires an entity to determine the price that would be paid to acquire that asset in an exchange transaction. The IPSASB decided estimating the price that would be paid to acquire the asset in an exchange transaction remained relevant, even in circumstances where the asset being measured is acquired through a non-exchange transaction. For an estimate to provide relevant and reliable information it should be based on assumptions that can be verified and duplicated by the user of the information. Assuming the asset is acquired, constructed, or developed, in an exchange

transaction enables the entity to present useful information allowing the user to observe the amount an entity would pay for the remaining service potential of the asset.

Current Operational Value – Existing Asset

BC50. During the development of this Standard, the IPSASB discussed alternative approaches to capture the value of public sector assets. Based on some responses to the Exposure Draft, the IPSASB considered whether measuring the asset based on the value of the service or benefits the asset provides results in useful and relevant information when presenting an asset held for its operational capacity – i.e., to deliver direct services to the public, and/or to provide a wider community benefit.

BC51. The IPSASB rejected the idea of measuring public sector assets based on the value of services or benefits they provide because:

(a) It is inconsistent with how all other non-financial assets are measured on the statement of financial position;

(b) The IPSASB agreed that a public sector measurement basis that values the asset by valuing the services delivered to the public, or the wider community benefits to the public, would result in the asset recognition criteria not being satisfied, as there is no well-established method in practice to derive such a valuation in a relevant and reliable way.

BC52. The IPSASB agreed that the public sector measurement basis is based on the value of the physical items that comprise the asset. For example, a public sector entity provides a service for passenger vehicles to cross a water way. The service is currently being delivered with a tunnel. A current operational value measurement estimates the amount an entity would pay for the remaining service potential of the asset. In this example, the tunnel. Current operational value does not measure the value of the service and, by extension, alternative assets (such as a bridge or ferry service) that could also provide the same service.

Current Operational Value – Existing Use

BC53. An asset supports an entity in achieving its policy objectives in its existing use. Existing use is the current way an asset or group of assets is used. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. This approach reflects the economic position of the entity, rather than the position prevailing in a hypothetical market.

BC54. The IPSASB agreed the concept of existing use is core to current operational value. The IPSASB agreed with responses to its Exposure Draft that fair value does not present relevant measurement information for assets held for their service capacity because fair value requires assets to be measured at their ‘highest and best use’. A public-sector-specific measurement basis must measure assets as they are currently being used to meet the entity’s policy objectives. This measurement will provide users of the entity’s financial information with the value of the asset to the entity as it is currently being used.

Current Operational Value – Existing Location of the Asset

BC55. 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.

BC56. 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 existing use. This is because delivering the service from another location is unlikely to be in the public interest, given that the location where the asset is currently situated was selected for service delivery needs. Relocating the asset to another location is a separate, future policy decision that should not be taken into consideration when measuring the asset. Current operational value valuations should be based on delivering the entity's goods and/or services from the existing location.

BC57. The IPSASB noted that measuring land held for its operational capacity at its existing 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 – Measurement Techniques

BC58. To support the application of current operational value, the IPSASB agreed the market approach and the cost approach reflect 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 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.

BC59. 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 is relevant.

BC60. The IPSASB agreed the income approach is not an appropriate measurement technique when estimating the value of the asset when measured at current operational value. Given public sector assets often generate little to no cash flows, and generally cash flows are insufficient to cover operating expenses, the IPSASB concluded discounting future income streams would be impracticable. Furthermore, given the nature of current operational value, the income approach would not be applied in conjunction with another measurement technique because discounting future cash flows is not necessary given the market approach assumes pricing for the asset is available on the measurement date, and the cost approach assumes the production or development of the asset is immediate.

Use of Current Operational Value throughout IPSAS

BC61. 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.

BC62. The IPSASB agreed current operational value should be available to estimate the value of property, plant, and equipment within the scope of IPSAS 45. 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.

BC63. 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 Standard was issued.

Cost of Fulfillment (Appendix C)

BC64. In developing Cost of Fulfillment, the IPSASB considered concepts applied by the IASB related to Fulfillment Value. Both measurement bases share many characteristics. However, one key difference between the bases is fulfillment value requires a risk premium be included when measuring a liability. A risk premium, also known as a risk adjustment or risk margin, is the price for bearing the uncertainty inherent in the cash flows.

BC65. In developing its April 2019 Measurement Consultation Paper, the IPSASB proposed including the requirement to include a risk premium when measuring liabilities using the Cost of Fulfillment measurement basis. Respondents challenged the rationale and questioned the need for a risk premium in the public sector. Respondents:

(a) Questioned whether the risk premium provides faithfully representative and relevant information to users about the extent of the entity's liabilities to be settled in the future;

(b) Noted it does not reflect the least costly manner to fulfill the liability; and

(c) Expressed the view that a risk premium reflects a bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.

BC66. The IPSASB agreed concerns raised by stakeholders could apply in some circumstances and agreed that an assessment as to whether to include a risk premium in the valuation of a liability was specific guidance that should be provided on a standard-by-standard basis.

Fair Value (Appendix D)

BC67. During the development of this Standard, 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*.

BC68. 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.

BC69. 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 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 capacity rather than operational capacity.

BC70. The IPSASB decided 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.

BC71. 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 IPSAS 46 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 Standard's fair value appendix, Appendix D, has reproduced the majority of IFRS 13 text and aims to ensure that the Standard's definition of fair value is the same as that established in IFRS 13.

Use of Fair Value throughout IPSAS

BC72. 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 versus entry distinction is not useful in selecting measurement bases (see BC7.19–BC7.22 of the IPSASB Conceptual Framework). The IPSASB noted that some jurisdictions considered the specialized versus 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.

BC73. 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.

BC74. 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.

BC75. The IPSASB concluded that the need for consequential amendments will be decided on a case-by-case basis in accordance with IPSAS 46. In performing this analysis, the IPSASB reviewed each IPSAS and decided to retain the term fair value throughout IPSAS and apply this Standard's definition except for:

(a) IPSAS 43, *Leases*,[5] where the term and existing fair value definition in IPSAS 43 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.

BC76. As noted in BC10, guidance in IPSAS 46 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

BC77. 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 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.

BC78. The IPSASB agreed including value in use guidance in this Standard is unnecessary. This decision was supported by responses to the Measurement Consultation Paper.

Application of Measurement Techniques

BC79. 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.

BC80. 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:

[5] If IPSAS 46, *Measurement* is adopted prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

(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 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.

BC81. In developing this Standard, the IPSASB elected to align with IFRS 13, *Fair Value*, adopting all measurement techniques set out in IFRS 13. The cost approach is considered an appropriate measurement technique to approximate Fair Value as the cost to replace an asset is consistent with an exit price definition of fair value. An entity's cost to replace an asset would equal the amount that a market participant buyer of that asset (that would use it similarly) would pay to acquire it (i.e., the entry price and the exit price would be equal in the same market).

Depreciation and Amortization

BC82. Depreciation is a charge for the consumption of an asset over its estimated useful life. The Standard does not address depreciation. Requirements and guidance on depreciation are provided at standards level. For example, IPSAS 45, *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.

BC83. 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 the Standard 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.

BC84. 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 45 requires that assets on the current value 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

BC85. 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.

BC86. 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.

BC87. 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 disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied.

BC88. In March 2022, the IPSASB reconfirmed the location of the disclosure requirements. The IPSASB considered whether generic measurement disclosure requirements that apply across the IPSAS should be consolidated in the Measurement standard. The IPSASB expressed concern about splitting the disclosure requirements. The IPSASB agreed to maintain the existing approach of inserting the disclosure requirements in the relevant IPSAS to clearly indicate the disclosures to be applied.

Transition

BC89. The IPSASB concluded that although IPSAS 46 is a major new standard that incorporates the IFRS 13, *Fair Value,* concept into IPSASB literature, much of the Standard is a codification of existing measurement guidance currently spread across many individual IPSAS. IPSAS 46 brings together generic measurement guidance, while transaction-specific guidance remains in those individual IPSAS.

BC90. Consequently, the IPSASB decided that IPSAS 46 should be effective for annual periods beginning on or after January 1, 2025. Because IPSAS 46 applies when other IPSAS require or permit application of the measurement bases, the IPSASB believes that the extended transition period for IPSAS 46 provides enough time for entities, their auditors and users of financial statements to prepare for implementation of its requirements.

BC91. 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 IPSAS 46 should be applied prospectively (in the same way as a change in accounting estimate).

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 46, Measurement.

Section A: Measurement

A.1. 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	X	
Market Participant	X			
Non-Performance Risk	X			
Risk Premium	X			
Current Market Conditions	X	X	X	
Principal or most advantageous market	X	X		
Highest and Best Use	X			
Least costly manner		X	X	

A.2 What disclosures are required when applying current value measurements bases in IPSAS?

For assets and liabilities measured using the current value model, 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. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied. For example, disclosures related to the fair value hierarchy are inserted in the relevant IPSAS as follows:

			Fair Value Measurement						Only Fair Value Disclosed		
			Recurring			Non-Recurring					
IPSAS	**Relevant paragraph**	**Requirement**	**L1[6]**	**L2[7]**	**L3[8]**	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
IPSAS 12 (50C (b)) **IPSAS 16 (89C (b))** **IPSAS 27 (46C (b))** **IPSAS 30 (30C (b))** **IPSAS 31 (123C (b))** **IPSAS 34 (23C (b))** **IPSAS 38 (57C (b))**	**(a)**	Fair value measurement at the end of the reporting period	X	X	X	X	X	X			
	(a)	Reasons for the measurement				X	X	X			
	(b)	Level of the fair value hierarchy	X	X	X	X	X	X	X	X	X
	(c)	Description of the measurement technique(s) and the inputs used in the fair value measurement		X	X		X	X		X	X
	(c)	Any changes to the measurement technique(s) and the reasons therefore		X	X		X	X		X	X
	(c)	Quantitative information about the significant unobservable inputs used in the fair value measurement		X	X		X	X		X	X
	(d)	Reconciliation from the opening balances to the closing balances			X						
	(e)	Total gains or losses for the period 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			X						
	(f)	Description of the valuation processes used by the entity			X			X			

	(g)	Narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs			X						
	(g)	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[9].			X						

Section B: Selection of Measurement Bases

B.1. How does an entity determine the intended primary measurement objective of an asset?

Where an asset is held for both its financial capacity and operational capacity 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.

B.2. How does an entity determine whether an asset is one unit of account or multiple units of account?

In some cases, an asset held for both its financial and operational capacity may be an indicator of where each part of the asset should be measured separately and measured using a different measurement basis. For example, the part of the asset used for operational purposes is measured using current operational value, and the part of the asset used for financial purposes is measured using fair value. This may occur when one wing of a hospital generates a financial return by charging for health care services, while another wing of a hospital is held only for its operational capacity where health care services are delivered free of charge to citizens.

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

7 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.

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

9 This disclosure requirement is limited to the amendments made to *IPSAS 30, Financial Instruments: Disclosures*.

Whether the asset is a stand-alone asset, has multiple parts, or is a group of assets 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 Standard.

B.3. What should an entity consider when determining the appropriate measurement model?

The historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

(a) A more senior level of government for all entities in a sector or jurisdiction; or

(b) An applicable regulatory framework in the jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity should select the measurement model that best meets the informational needs of the user of the financial reports.

In selecting the appropriate measurement model, the reporting entity should consider whether or not or not it wants its asset or liability to reflect the value of the transaction at the date of initial recognition, or the current value of the same transaction on the date of measurement.

Section C: Historical Cost

C.1. Is there a difference between the transaction price and the historical cost basis?

Yes. Transaction price is defined as the consideration given to acquire, construct, or develop an asset, or received to assume a liability, and is used to measure an asset or liability on the date of initial recognition. The historical cost basis is derived from the transaction price adjusted for transaction costs, or deemed cost where applicable. In some cases, the historical cost basis may be equal to the transaction price, and in some cases the historical cost basis is derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability.

C.2. Should transaction costs be subtracted from the transaction price when determining the historical cost of a liability?

Yes. The definition of historical cost includes transaction costs, as such costs can be significant. To appropriately reflect the economics of the liability, transaction costs incurred to assume the liability are deducted from the contractual amount of the borrowing. For example, an entity borrows CU1,000,000 of which transaction costs are CU100,000. In such an instance the historical cost is 900,000 CU. This is because immediately after taking receipt of the CU1,000,000, the transaction costs of CU100,000 is repaid to the institution or counterparty, leaving the entity with CU900,000. The transaction costs of CU100,000 are included in interest expense over the term of the instrument as the carrying amount of CU900,000 is accreted to CU1,000,000 on the settlement date.

Section D: Current Operational Value

D.1. How does an entity reflect the remaining service potential of an asset?

Service potential is the capacity to provide services that contribute to achieving the entity's policy objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. To reflect the remaining service potential, the age, functionality, and condition of the asset need to be reflected in the measurement.

For example, a new asset is expected to have more remaining service potential than an asset that is midway through its service life. The age of the asset is correlated with the remaining service potential. Reflecting the age of the asset in the measurement, ensures the remaining service potential is estimated appropriately.

The current age, functionality, and condition of an asset is reflected in the asset measurement by considering physical, functional, and economic obsolescence.

(a) Physical Obsolescence – Physical obsolescence relates to any loss of service potential 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 potential 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. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

D.2. How does an entity calculate the current operational value of an asset when there is no active market?

If the price to acquire an identical, or a similar, asset is unavailable in an active market, current operational value will be determined based on the cost to develop or produce an identical, or a similar, asset (i.e., the cost approach).

When determining the cost to develop or produce an identical, or similar, asset, an entity determines the price of each part of the asset included in the assembly of the asset. The cost to develop or produce the asset also includes the amount that would be paid to assemble the parts, or develop or develop the asset. Observable inputs are used in determining the price of parts and the costs to assemble, construct, or develop when it is feasible to do so. As current operational value is an entity-specific valuation, observable inputs are used when they are available, and they are relevant to the entity. For example, when measuring an aircraft, the ministry of defense may conclude it would acquire each of the parts in an active market, but use its own personnel to construct the aircraft (i.e., the least costly manner). Observable inputs are used for the fuselage, engine, etc. as they are relevant to the ministry of defense. Entity-specific inputs related to the assembly of the parts are applied as the ministry of defense will assemble the aircraft internally.

D.3. How does an entity identify an identical, or similar, asset when new technology has been developed making the existing asset obsolete?

An entity measures current operational value by identifying the price it would pay for the remaining service potential of an identical asset in an active market. An identical asset in an active market is used regardless of whether new technology exists that supersedes the asset under valuation. For example, if a health authority is measuring the current operational value of ventilators acquired 10

years previously, it does not consider the newest iteration of a ventilator when identifying an identical asset.

When an identical asset cannot be identified, a similar asset may be the latest iteration of the asset. However, in determining the current operational value, the value of the most recent iteration of the asset is adjusted to reflect the current age, functionality, and condition of the asset under valuation.

D.4. Is the currently unused capacity of an asset excluded from the current operational value of an asset?

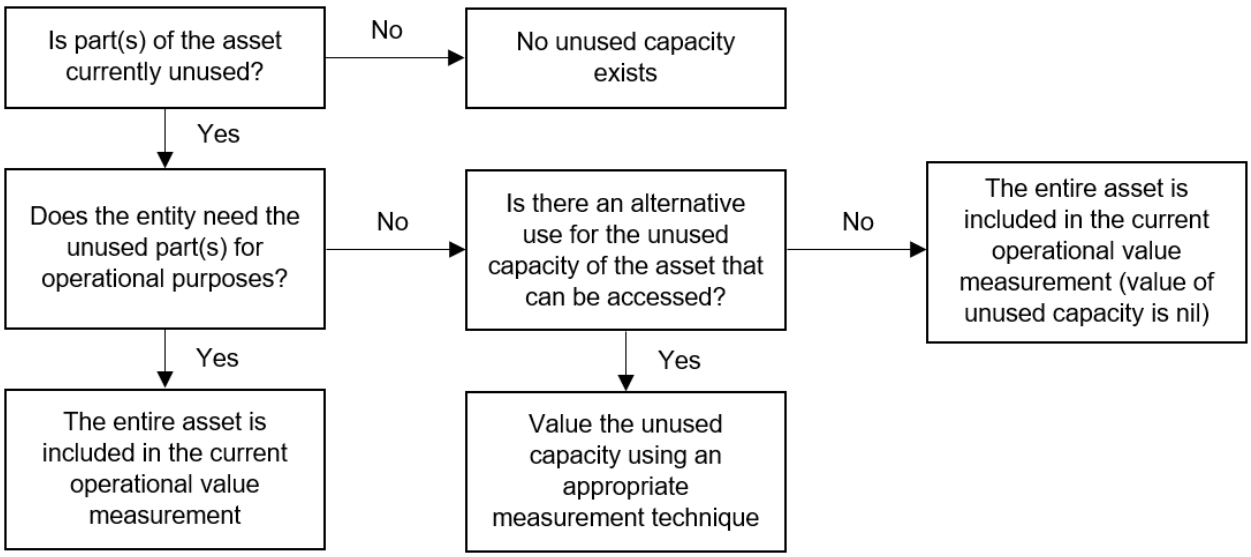
It depends. Any part of the asset that is currently unused is evaluated to determine whether the unused part is held for an operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, or when the unused portion is necessary for future use (see decision tree below).

For example, a community center in a municipality prone to natural disasters has a capacity of 700 individuals even though only 200 individuals currently use the location on a regular basis. The unused portion still has operational capacity because the building has a dual purpose. It is operated as both a community center and as a shelter for the community in the event of a natural disaster. The currently unused capacity of 500 individuals is still required for the municipality's broader operational purpose and so the whole asset is included in the measurement of its current operational value.

Another example might be where the currently unused part of the asset is expected to be required in the near future. In circumstances where a school is built in a community that is rapidly growing, it may have been constructed to take the anticipated student numbers rather than the existing student numbers. The current unused portion is, therefore, required and is included in the measurement of the school's current operational value.

Where it is determined that the unused part of the asset has no operational purpose, an entity must determine whether it has an alternative use. When an alternative use is currently available, the relevant part of the asset is valued as a separate unit of account using an appropriate measurement basis. Where the unused part has no alternative use, it is included in the current operational value, but has no value.

Illustration of the Analysis of Unused Capacity



D.5. Are restrictions on an asset's use or disposal taken into account in the current operational value of an asset?

Yes. Many assets are subject to restrictions on their use or disposal. Such restrictions affect how the entity operates the asset. For example, a state may restrict the operation of a municipally run building, where the building is required to be operated as a library. When the entity measures the current operational value of the building, it measures the building on the basis that its use is restricted to being operated as a library.

D.6. What factors are considered in identifying a modern equivalent asset, and what adjustments are necessary to reflect the current operational value of the existing asset?

A modern equivalent should reflect the same characteristics as the asset being measured. If the equivalent asset has a different service potential from the asset being measured (although necessarily the same nature), comparison techniques are used to adjust for the difference between the service potential of the entity's asset being measured and the service potential of the equivalent reference asset.

In some circumstances a modern equivalent asset may not be reflective of the asset being measured. For example, 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 an 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 would not represent the heritage value of the asset and therefore would not be a suitable measurement.

The cost of a modern equivalent asset will reflect the amount that would be paid if the asset were developed or produced on the measurement date. However, there are factors that may result in the cost of the modern equivalent asset being different from that of creating the actual asset:

(a) Phasing of work – An asset may have been developed in phases. The cost of a modern equivalent asset would be based on a single-phase development, and measured at the cost at the measurement date. A single-phase development may still occur over an extended period of time.

(b) Borrowing costs – If the entity does not capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*, the entity disregards any financing costs in measuring the modern equivalent asset.

(c) Additional costs arising from extending an existing asset – These costs are not considered as the valuation will be of a modern equivalent asset.

(d) Contract variations – Additional construction costs because of contract variations should not be considered. The modern equivalent asset being valued will have the same service capacity as the existing asset in its existing use.

(e) Planning changes – Entities should consider whether planning consent would need to be obtained to construct the modern equivalent asset and take this into account.

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.

Section E: Use of Experts

E.1. 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.

E.2. 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 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) 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);

  (iii) Information about any improvements made by the entity, where the entity is a tenant of real estate, 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;

(iv) To understand the degree of control an entity has over real estate or other property[10] 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;

(v) To ensure that, in the context of a portfolio of real estate, any grouping of those assets is appropriate;

(c) 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 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.

E.3. 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 determine the 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.

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

E.4. What sort of assumptions would it be reasonable for the valuation specialist to make when carrying out a valuation of real estate using the cost approach (often referred to as the depreciated replacement cost valuation method)?

The nature of any assumptions must be consistent with the principles of the standard. Nevertheless, because the valuation is entity specific, it is important that the valuation specialist understands the entity's perspective about the real estate, and information that supports that perspective, when determining the assumptions. Assumptions are likely to take in to account the factors listed below, which the valuation specialist should determine with the entity when scoping the valuation assignment.

(a) The construction of the building is immediate.

Although buildings are constructed over time, when revalued under the cost approach the valuation specialist is required to assume the production or development of the asset is immediate as at the valuation date, rather than establish the costs over the likely period of construction, adjusted for the time value of money. The method of determining the base cost is a factor that the valuation specialist should determine with the entity.

(b) The existing location of the real estate.

Goods and services can be provided from various locations. For example, a hospital can be constructed in various locations to provide similar health care services to a group of citizens. When applying current operational value, the valuation specialist is required to assume the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated.

(c) Whether or not the entity has a policy to capitalize borrowing costs.

Borrowing costs are included in the current operational value of the asset only if the entity capitalizes borrowing costs in accordance with IPSAS 5, *Borrowing Costs*. Where the entity does not capitalize borrowing costs, the valuation specialist reflects this policy choice in their assumptions and disregards any financing costs in measuring the modern equivalent asset.

(d) Expected demographic changes that affect the use of the building.

Demographic changes may be reasonably expected over the remaining life of the building. Such changes may indicate a reduction in the demand for services delivered using the building. This in turn might lead to a change in assumption about the ongoing use of the building or to a change in the specifications required for an efficient and effective replacement of the building. Conversely, demographic changes may support an increase in the expected demand for services delivered using the building, which may support a higher use for the asset than current demographics indicate. This may occur when a school is operating below capacity, but other development in the area suggests the school will operate at capacity when the development is complete. The effect of demographic changes on the replacement of the building is a factor that the valuation specialist should determine with the entity.

(e) Specialized features of the building.

A building might have a conventional, basic design that is 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 entity. Examples of specialized features include

the addition of security/safety enhancements to protect staff from physical attack in 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. The requirement for specialized features associated with real estate assets is a factor that the valuation specialist should determine with the entity.

(f) The appropriateness of standard design lives and costings.

The construction industry will generally have standard design lives for different types of buildings (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 property assets. The valuation specialist is likely to use these standard model assumptions in preparing the valuation unless there is information to suggest that those standards should be adjusted. Information to support appropriate design lives and costings are factors that the valuation specialist should determine with the entity.

E.5. What is meant by a 'modern equivalent asset'?

A modern equivalent asset 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.

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 depreciated replacement cost method is based on the economic theory of substitution. 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 entity would pay for the actual asset, valuation adjustments have to be made to the gross replacement cost of the modern equivalent asset 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 modern equivalent asset will be separately assessed.

Under the cost approach, the valuation specialist will reflect all appropriate costs in the price the entity would pay for 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.

If the entity does not capitalize borrowing costs under IPSAS 5, *Borrowing Costs*, the valuation expert needs to disregard financing costs.

The cost of the modern equivalent asset 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 – Physical obsolescence relates to any loss of service potential 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 potential 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. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

E.6. 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.

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.

E.7. 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.

Comparison with IFRS 13

The fair value measurement requirements in IPSAS 46, *Measurement* are drawn primarily from IFRS 13, *Fair Value Measurement* (issued in May 2011, including amendments up to February 2023). The main differences between IPSAS 46 and IFRS 13 are as follows:

- IPSAS 46 provides guidance on historical cost, current operational value, cost of fulfillment and fair value. IFRS 13 only provides guidance on fair value.
- IPSAS 46 requires an entity to apply the measurement disclosure requirements in the relevant IPSAS. IFRS 13 includes all disclosures about fair value measurement.

Comparison with GFS

In developing IPSAS 46, *Measurement*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the measurements under IPSAS 46 and GFS will depend on the facts and circumstances of the transactions and carrying amounts at the end of the reporting period.
- On initial recognition, IPSAS 46 requires measurement at transaction price or deemed cost where appropriate. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so both may result in the same valuations.
- IPSAS 46 requires capitalization of transaction costs for all assets, while GFS only requires capitalization of cost of ownership transfer for non-financial assets.
- On subsequent measurement, IPSAS 46 allows historical cost, current operational value, cost of fulfillment and fair value measurement bases. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so the same valuation can result if the market approach is used as the measurement technique.

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IPSAS®

International Public Sector Accounting Standard®

IPSAS 45, *Property, Plant, and Equipment*

IPSASB International Public Sector Accounting Standards Board®

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IPSAS 45, PROPERTY, PLANT, AND EQUIPMENT

CONTENTS

	Paragraph
Objective	1
Scope	2–4
Definitions	5
Recognition	6–10
Initial Measurement	11–23
Elements of Cost	14–19
Measurement of Cost	20–23
Subsequent Measurement	24–61
Historical Cost Model	26
Current Value Model	27–40
Depreciation	41–58
Impairment	59
Compensation for Impairment	60–61
Derecognition	62–68
Disclosure	69–84
General Disclosure for Property, Plant, and Equipment	69–76
Disclosure of Unrecognized Heritage Property, Plant, and Equipment	77–78
Current Value Measurement	79–84
Effective Date and Transition	85–86
Effective Date	85–86
Transition	87–88
Withdrawal of IPSAS 17 (2006)	89
Appendix A: Application Guidance	
Appendix B: Amendments to Other IPSAS	
Basis for Conclusions	
Implementation Guidance	
Illustrative Examples	
Comparison with IAS 16	
Comparison with GFS	

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are the recognition of the assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

Scope (see paragraphs AG1-AG7)

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except when another Standard requires or permits a different accounting treatment.**

3. This Standard does not apply to:

   (a) Biological assets related to agricultural activity other than bearer plants (see IPSAS 27, *Agriculture*). This Standard applies to bearer plants but does not apply to the produce on bearer plants;

   (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);

   (c) Property, plant, and equipment classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and

   (d) The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with measurement of exploration and evaluation assets).

   However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(a), 3(b) and 3(d).

4. An entity using the historical cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the historical cost model in this Standard for owned investment property.

Definitions (see paragraphs AG8-AG11)

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

   Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

   Class of property, plant, and equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

   Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

   Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Property, plant, and equipment are tangible assets that:

(a) **Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**

(b) **Are expected to be used during more than one reporting period.**

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

(a) **The period over which an asset is expected to be available for use by an entity; or**

(b) **The number of production or similar units expected to be obtained from the asset by an entity.**

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 and are used in this Standard with the same meaning as in IPSAS 46, *Measurement*:

(a) **Historical cost;**

(b) **Current operational value; and**

(c) **Fair value.**

The term recoverable service amount is defined in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and is used in this Standard with the same meaning as in IPSAS 21.

The term recoverable amount is defined in IPSAS 26, *Impairment of Cash-Generating-Assets* and is used in this Standard with the same meaning as in IPSAS 26.

The term bearer plant is defined in IPSAS 27 and is used in this Standard with the same meaning as in IPSAS 27.

Recognition (see paragraphs AG12-AG16)

6. **An item of property, plant, and equipment shall be recognized if, and only if:**

   (a) **It is probable that future economic benefits or service potential associated with the item will flow to the entity; and**

   (b) **The item can be measured reliably[1].**

7. If an entity holds heritage property, plant, and equipment that meets the definition of an asset, but which does not meet the recognition criteria in paragraph 6(b), information as required by paragraph 77 shall be disclosed in the notes to the financial statements. When information about the cost or current value of the heritage property, plant, and equipment becomes available, the entity shall, from that date, recognize the heritage property, plant, and equipment in accordance with paragraph 6 and apply the measurement principles in this Standard.

[1] 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, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

8. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to (a) disaggregate individually significant items, such as floors of a building, into separate units of account when the objective for which the entity holds the building is both for operational and financial capacity or (b) aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.

9. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire, construct or develop an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant, and equipment, such as depreciation of right-of-use assets.

10. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition, construction, or development of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired, constructed, or developed. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21 and IPSAS 26.

Initial Measurement (see paragraphs AG17-AG19)

11. **An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, as described in paragraphs 14-19, unless it is acquired through a non-exchange transaction.**

12. **Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost. An entity shall apply IPSAS 46 when measuring deemed cost of an item of property, plant, and equipment.**

13. For the purposes of this Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its deemed cost consistent with the requirements of paragraph 12, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 29, and the supporting Application Guidance, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.

Elements of Cost

14. The cost of an item of property, plant, and equipment comprises:

    (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

    (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

15. Examples of directly attributable costs are:

(a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the acquisition, construction, or development of the item of property, plant, and equipment;

(b) Costs of site preparation;

(c) Initial delivery and handling costs;

(d) Installation and assembly costs;

(e) Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and

(f) Professional fees.

16. An entity applies IPSAS 12, *Inventories*, to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and this Standard are recognized and measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

17. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:

(a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) Initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) Costs of relocating or reorganizing part or all of the entity's operations.

18. Items may be produced while bringing an item of property, plant, and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognizes the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IPSAS 12.

19. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be

capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.

Measurement of Cost

20. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 12, its deemed cost at the recognition date. If payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.

21. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at its current value unless the exchange transaction lacks commercial substance, or the current value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at current value, its cost is measured at the carrying amount of the asset given up.

22. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

    (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

    (b) The portion of the entity's operations affected by the transaction changes as a result of the exchange; and

    (c) The difference in (a) or (b) is significant relative to the current value of the assets exchanged.

    For the purpose of determining the portion of the entity's operations affected by the transaction, as in paragraph 22(b), the entity calculates the present value of the expected cash flows, (or post-tax cash flows when tax applies), to arise from the continuing use of an asset and from its disposal at the end of its useful life. The result of these analyses may be clear without an entity having to perform detailed calculations.

23. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value. If an entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Subsequent Measurement (see paragraphs AG20-AG36)

24. **An entity shall choose either the historical cost model in paragraph 26 or the current value model in paragraph 27 as its accounting policy and shall apply that policy to an entire class of property, plant, and equipment.**

25. **When the measurement requirements are applied to the item of property, plant, and equipment after recognition, an entity shall apply IPSAS 46.**

Historical Cost Model

26. **After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses.**

Current Value Model (see paragraphs AG20-AG23)

27. **After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. The primary objective for which an entity holds an item or part of an item of property, plant, and equipment determines the current value measurement basis. An item or part of an item of property, plant, and equipment held primarily for its operational capacity is measured at current operational value, and when it is held primarily for its financial capacity is measured at fair value.**

28. The measurement basis used to measure current value, either current operational value or fair value, shall be applied consistently to an item or part of an item of property, plant, and equipment at each measurement date, unless the primary objective for which the entity holds an item or part of an item of property, plant, and equipment has changed. In that case a change in the current value measurement basis, from current operational value to fair value, or vice versa, is appropriate.

29. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 36-38.**

30. The frequency of revaluations depends upon the changes in current values of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in current value. Instead, it may be necessary to revalue the item only every three or five years.

31. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

    (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 36 and 37.

32. **If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.**

33. Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26 do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.

34. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) Land;

(b) Operational buildings;

(c) Machinery;

(d) Ships;

(e) Aircraft;

(f) Weapons systems;

(g) Motor vehicles;

(h) Furniture and fixtures;

(i) Office equipment;

(j) Oil rigs;

(k) Bearer plants;

(l) Heritage collections; and

(m) Infrastructure.

When grouping property, plant, and equipment into classes, an entity may identify items with similar nature, but held for different functions, or vice versa. For example, while various parcels of land might be similar in nature, some may be held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and presenting information using historical cost for one class and current value for the other.

35. The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

36. **If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**

37. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**

38. **Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.**

39. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

40. Guidance on the effects of taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes.

Depreciation (see paragraphs AG24-AG36)

41. **Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.**

42. A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

43. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

44. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

45. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**

46. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset, and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31, *Intangible Assets*.

Depreciable Amount and Depreciation Period (see paragraphs AG25-AG27)

47. **The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**

48. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

49. Depreciation is recognized even if the current value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed, and/or the asset tested for impairment in accordance with paragraph 59, and adjusted accordingly.

50. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Buildings generally have a finite useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

51. If the carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a finite useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Finite and Indefinite Useful Lives (see paragraphs AG28-AG32)

52. An entity shall assess whether the useful life of property, plant, and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting that useful life. Land usually has an indefinite useful life. There is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. Property, plant, and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to, or be used to generate net cash inflows for the entity.

53. An item of property, plant, and equipment with a finite useful life is depreciated. An item of property, plant, and equipment with an indefinite useful life is not depreciated.

54. The term "indefinite" does not mean "infinite." The useful life of property, plant, and equipment should reflect evidence on factors that could affect the useful life at the time of estimating the asset's useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means that they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, a conclusion that the useful life of property, plant, and equipment is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current standard of performance. Nor should such a conclusion depend on preservation actions for which there is no realistic likelihood under present or projected budget constraints.

55. The useful life of an item of property, plant, and equipment may be very long or even indefinite. Uncertainty about an asset's useful life when it is very long does not justify choosing a life that is unrealistically short.

Annual Impairment Reviews for Assets with Indefinite Useful Lives

56. An entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21 and IPSAS 26.

Depreciation Method (see paragraphs AG33-AG34)

57. **The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.**

58. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**

Impairment

59. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

Compensation for Impairment

60. **Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.**

61. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase, construction, or development of replacement assets are separate economic events and are accounted for separately as follows:

    (a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;

    (b) Derecognition of items of property, plant, and equipment retired or disposed of is determined in accordance with this Standard;

    (c) Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and

    (d) The cost of items of property, plant, and equipment restored, purchased, constructed, or developed as replacement is determined in accordance with this Standard.

Derecognition

62. **The carrying amount of an item of property, plant, and equipment shall be derecognized:**

    (a) **On disposal; or**

(b) **When no future economic benefits or service potential is expected from its use or disposal.**

63. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 43, *Leases* requires otherwise on a sale and leaseback).**

64. The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods. IPSAS 43 applies to disposal by a sale and leaseback.

65. If, under the recognition principle in paragraph 6, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been 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, constructed, or developed.

66. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

67. The consideration receivable on disposal of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable.

68. However, an entity that, in the course of its activities, routinely sells items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognized as revenue in accordance with IPSAS 9. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

Disclosure

General Disclosure for Property, Plant, and Equipment

69. **The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:**

(a) **The measurement bases used for determining the gross carrying amount;**

(b) **The depreciation methods used;**

(c) **The useful lives or the depreciation rates used;**

(d) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**

(e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

(i) **Additions;**

(ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals ;**

(iii) **Acquisitions through public sector combinations;**

(iv) **Increases or decreases resulting from revaluations under paragraphs 29, 36, and 37 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vii) **Depreciation;**

(viii) **The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**

(ix) **Other changes.**

70. **The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:**

(a) **The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;**

(b) **The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction or development; and**

(c) **The amount of contractual commitments for the acquisition, construction, or development of property, plant, and equipment.**

71. **If not presented separately in the statement of financial performance, the financial statements shall also disclose:**

(a) **The amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and**

(b) **The amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 18 that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.**

72. Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and

(b) Accumulated depreciation at the end of the period.

73. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to:

    (a) Residual values;

    (b) The estimated costs of dismantling, removing, or restoring items of property, plant, and equipment;

    (c) Useful lives; and

    (d) Depreciation methods.

74. **If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed:**

    (a) **The effective date of the revaluation;**

    (b) **Whether an independent valuer was involved;**

    (c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**

    (d) **The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and**

    (e) **The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.**

75. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 69(e)(iv)-69(e)(vi).

76. Users of financial statements may also find the following information relevant to their needs:

    (a) The carrying amount of temporarily idle property, plant, and equipment;

    (b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use;

    (c) The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with IPSAS 44; and

    (d) When the historical cost model is used, the current value (current operational value or fair value) of property, plant, and equipment when this is materially different from the carrying amount.

    Therefore, entities are encouraged to disclose these amounts.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment (see paragraphs AG37-AG38)

77. **Where heritage property, plant, and equipment or a class of heritage property, plant, and equipment is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:**

    (a) **The difficulties in obtaining a reliable measurement that prevented recognition; and**

    (b) **The significance of the unrecognized heritage property, plant, and equipment in relation to delivery of the entity's objectives**.

78. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 69-76 and 79-84 will apply.

Current Value Measurement

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

    (a) **For property, plant, and equipment that are measured at current operational value or fair value in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.**

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

80. To meet the objectives in paragraph 79, 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 Standard are insufficient to meet the objectives in paragraph 79, an entity shall disclose additional information necessary to meet those objectives.

81. To meet the objectives in paragraph 79, an entity shall disclose, at a minimum, the following information for each class of property, plant, and equipment (see paragraph 82 for information on determining appropriate classes of property, plant, and equipment for current value measurement disclosures) measured at current operational value or fair value in the statement of financial position after initial recognition:

    (a) The current operational value or fair value measurement at the end of the reporting period;

    (b) If there has been a change in measurement basis (e.g., changing from current operational value to fair value), the entity shall disclose that change and the reason(s) for making it;

    (c) For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs. For 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);

    (d) For 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 cost approach to a market approach or the use of an additional valuation 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 significant 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;

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant 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, and sales (each of those types of changes disclosed separately);

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value estimated using significant unobservable inputs, 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 items of property, plant, and equipment 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 fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant 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); and

(h) For fair value measurements categorized within Level 3 of the fair value hierarchy or for current operational value measurements estimated using significant unobservable inputs a narrative description of the sensitivity of the current operational value or 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 current operational value or fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value or 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 current operational value or 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).

82. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of property, plant, and equipment (see paragraph 34) is required on the basis of (a) the measurement bases applied, and (b) the level of the fair value hierarchy within which the fair value measurement is categorized, or the extent to which the current operational value uses observable or unobservable inputs.

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 significant unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of property, plant, and equipment for which disclosures about current operational value or fair value measurements should be provided requires judgment. A class of property, plant, and equipment 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.

83. For each class of property, plant, and equipment measured on the historical cost basis 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 81(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 current operational value or fair value measurements estimated using significant unobservable inputs, required by paragraph 81(d). For such property, plant, and equipment, an entity does not need to provide the other current value measurement disclosures required by this Standard.

84. An entity shall present the quantitative current value measurement disclosures required by this Standard in a tabular format unless another format is more appropriate.

Effective Date and Transition

Effective Date

85. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted for entities that apply IPSAS 43, IPSAS 44, and IPSAS 46 at or before the date of initial application of the Standard. If an entity applies this Standard for a period beginning before January 1, 2025, it shall disclose that fact.**

86. When an entity adopts the accrual basis of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

87. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3 except that:**

    (a) **An entity may elect to measure heritage assets at their deemed cost when reliable cost information about these assets is not available at the date of application of this Standard.**

    (b) **If, on initial application of this Standard, there is a difference between the previous carrying amount at fair value and the new carrying amount at fair value or current operational value, an entity shall recognize that difference as an adjustment to the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) without restatement of comparative information.**

88. **For entities that have previously applied IPSAS 17 (2006), *Property, Plant, and Equipment* the requirements of paragraphs 21-22 regarding the initial measurement of an item of property,**

plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

Withdrawal of IPSAS 17 (2006)

89. This Standard supersedes IPSAS 17 issued in 2006. IPSAS 17 remains applicable until IPSAS 45, *Property, Plant, and Equipment* is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of the IPSAS 45, Property, Plant, and Equipment.

Scope (see paragraphs 2-4)

AG1. This Standard applies to all property, plant, and equipment including:

(a) Heritage;

(b) Infrastructure;

(c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and

(d) Weapons systems.

Heritage Assets

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

AG3. Heritage assets typically have the following distinguishing characteristics:

(a) They have restrictions on their use and/or disposal;

(b) They are irreplaceable; and

(c) They have long and sometimes indefinite useful lives.

Infrastructure Assets

AG4. Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these assets were removed, the network or system may not achieve its service potential objective.

AG5. Infrastructure assets typically have the following distinguishing characteristics:

(a) They are networks or systems; and

(b) They have long useful lives.

AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include:

(a) Electricity transmission networks, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities;

(b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and

(c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

Weapons Systems

AG7. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems.

Definitions (see paragraph 5)

Property, Plant, and Equipment as Assets

AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment are an asset as defined in IPSAS 1, *Presentation of Financial Statements*. This is because to be recognized as an asset, an item of property, plant, and equipment must meet all three criteria of an asset: a resource, presently controlled by the entity and arose from a past transaction or other past event.

AG9. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective when those services contribute to achieving the entity's service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where an entity's objectives are to provide heritage-related services such as the appreciation and study of heritage, the entity holds heritage items to achieve those objectives and the heritage items have service potential and are resources from the entity's perspective. Similarly, infrastructure assets that are used to deliver public services (e.g., road networks or water systems) will be resources to an entity that holds them if those services contribute to achieving the entity's service delivery and other objectives.

AG10. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the resource is used to achieve its objectives; or

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

An entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG11. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances, an entity considers substance over form in determining whether it controls an asset.

Recognition (see paragraphs 6-10)

Spare Parts, Stand-By Equipment, and Servicing Equipment

AG12. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Standard when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory (see IPSAS 12, *Inventories*).

Subsequent Costs

AG13. Under the recognition principle in paragraph 6, an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of property, plant, and equipment.

AG14. Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building. Under the recognition principle in paragraph 6, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 62-68).

AG15. A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired, constructed, or developed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired, constructed, or developed.

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

AG16. An entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle in paragraph 6. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and

equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of paragraph 6 to determine whether or not it meets the recognition principle and should be recognized as an asset.

Initial Measurement (see paragraphs 11-23)

Elements of Cost

AG17. Examples of costs that are not costs of an item of property, plant, and equipment are:

(a) Costs of opening a new facility;

(b) Costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) Costs of conducting an operation in a new location or with a new class of purchasers (including costs of staff training);

(d) Administration and other general overhead costs; and

(e) Costs of day-to-day servicing or repairs and maintenance.

AG18. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, *Borrowing Costs*, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.

AG19. Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to ‘construction’ in this Standard should be read as covering activities that are necessary to cultivate bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Subsequent Measurement (see paragraphs 24-61)

Current Value Model (Paragraphs 27-40)

AG20. After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured in a faithfully representative manner may be carried at a revalued amount, being its:

(a) Current operational value; or

(b) Fair value;

at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Financial and Operational Capacity

AG21. The primary objective for which an entity holds an item or part of an item of property, plant, and equipment is an important consideration when determining the current value measurement basis. An item or part of an item of property, plant, and equipment held for its:

(a) Operational capacity supports the provision of services in future periods through physical and other resources. This requires information on the value of the item or part of an item of property, plant, and equipment as it is currently used by the entity. An item or part of an item of property, plant, and equipment held with the primary objective of service delivery is held for its operational capacity and is measured at current operational value; and

(b) Financial capacity provides an entity with the means to fund its activities. This requires information on the amount that would be received on the sale of the asset or in the revenue it generates in use. An item or part of an item of property, plant, and equipment held with the primary objective of generating a financial return is held for its financial capacity and is measured at fair value.

AG22. In certain instances, an item or part of an item of property, plant, and equipment may generate a financial return although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. In this instance, the disposal waste plant would be measured at current operational value.

AG23. In some cases, it may not be clear whether the intended primary objective of holding an item or part of an item of property, plant, and equipment is for its operational or financial capacity. Judgment is needed. An entity develops criteria so that it can exercise judgment consistently in concluding whether an item or part of an item of property, plant, and equipment is held primarily for its operational or financial capacity. When the intended primary objective of holding an item or part of an item of property, plant, and equipment cannot be determined, given the overall objectives of most public sector entities, the presumption is that an item or part of an item of property, plant, and equipment is held for its operational capacity.

Depreciation (see paragraphs 41-58)

AG24. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, it may be required to depreciate separately the substructure and the surface of a road. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft. If an entity acquires property, plant, and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

Depreciable Amount and Depreciation Period (see paragraphs 47-51)

AG25. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.

AG26. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

AG27. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* and the date when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

Finite and Indefinite Useful Lives (see paragraphs 52-55)

AG28. The useful lives of property, plant, and equipment, including buildings, are generally finite. However, there are circumstances in which property, plant, and equipment could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset could be considered to have an indefinite useful life, so long as those conditions continue to apply.

AG29. Given the history of rapid changes in technology, it will often be the case that computers and other property, plant, and equipment susceptible to technological obsolescence have short useful lives. Expected future reductions in the selling price of an item that was produced using property, plant, and equipment could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.

AG30. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water.

AG31. An entity that controls land that is being consumed as a result of, for example, mining or quarrying activities will need to consider the period over which economic benefits or service potential are expected to be derived from, and the effect of, carrying out those activities on the value of the land to determine the appropriate depreciable period and amount.

AG32. Where land is being lost or displaced as a result of, for example, coastline erosion, the entity will need to apply:

(a) The derecognition requirements in paragraphs 62-68 of this Standard; or

(b) The impairment requirement in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets* depending on the circumstances.

Depending on the factors associated with the loss or displacement of land, an entity may need to consider the appropriateness of depreciating the land in future reporting periods, and should continue to assess for impairment in accordance with the requirements of this Standard.

Depreciation Method (see paragraphs 57-58)

AG33. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

AG34. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits or service potential of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

Depreciation – Useful Life of an Asset (see paragraphs 41-55)

AG35. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, economic, political, social, and legal factors may also affect the useful life. Technical or commercial obsolescence and wear and tear while an asset remains idle may also result in the diminution of the economic benefits or service potential that might otherwise have been obtained from the asset. The useful life is the shorter of the periods identified through consideration of these factors. Consequently, the following factors are considered in determining the useful life of an asset:

(a) Expected usage of the asset, which is assessed by reference to the asset's expected capacity or physical output;

(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle;

(c) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;

(d) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset;

(e) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases;

(f) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

(g) The stability of the industry in which the asset operates and changes in the market or government and service recipients' demand for the products or services output from the asset;

(h) Expected actions by competitors or potential competitors; and

(i) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

AG36. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment when Cost or Current Value Cannot be Measured Reliably (see paragraphs 77-78)

AG37. The disclosures identified in paragraph 77 for unrecognized heritage property, plant, and equipment should ensure that, when read in the context of information about recognized property, plant, and equipment, the financial statements provide useful and relevant information about the entity's overall holding of property, plant, and equipment, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG38. These disclosures may be presented in aggregate for groups or classes of property, plant, and equipment, provided this aggregation does not obscure significant information.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 7, 92, 94, 101, 125C, 134, and 148 are amended. Paragraph 153O is added. New text is underlined, and deleted text is struck through.

Definitions

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

…

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests. Types of reserves include:

(a) **Changes in revaluation surplus (see ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*);**

(b) **Remeasurements of defined benefit plans (see IPSAS 39, *Employee Benefits*);**

(c) **Gains and losses arising from translating the financial statements of a foreign operation (see IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*);**

(d) **Gains and losses from investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41, *Financial Instruments*;**

(e) **Gains and losses on financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41;**

(f) **The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 (see paragraphs 113-155 of IPSAS 41);**

(g) **For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 108 of IPSAS 41);**

(h) **Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see paragraphs 113-155 of IPSAS 41); and**

(i) **Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see paragraphs 113-155 of IPSAS 41).**

Information to be Presented on the Face of the Statement of Financial Position

…

92. The use of different measurement ~~bases~~ models for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with ~~IPSAS 17~~ IPSAS 45, ~~*Property, Plant, and Equipment*~~.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

…

94. The detail provided in subclassifications depends on the requirements of IPSASs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

    (a) Items of property, plant, and equipment are disaggregated into classes in accordance with ~~IPSAS 17~~ IPSAS 45;
    (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments, and other amounts;
    (c) Inventories are subclassified in accordance with IPSAS 12, *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress, and finished goods;
    (d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
    (da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;
    (e) Provisions are disaggregated into provisions for employee benefits and other items; and
    (f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

Surplus or Deficit for the Period

…

101. Other IPSASs deal with items that may meet definitions of revenue or expense set out in this Standard but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see ~~IPSAS 17~~ IPSAS 45), particular (a) gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4), and (b) gains or losses on remeasuring financial assets measured at fair value through net assets/equity (guidance on measurement of financial assets can be found in IPSAS 41).

Statement of Changes in Net Assets/Equity

…

125C. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31 or on remeasurements of defined benefit plans recognized in accordance with IPSAS 39. These components are recognized in net assets/equity and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognized (see ~~IPSAS 17~~ IPSAS 45 or IPSAS 31). In accordance with IPSAS 41,

reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of net assets/equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Disclosure of Accounting Policies

…

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 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~~ IPSAS 45 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.

Key Sources of Estimation Uncertainty

…

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other IPSASs. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 30 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. ~~IPSAS 17~~ IPSAS 45 requires disclosure of ~~significant assumptions~~ measurement techniques and inputs applied in ~~estimating~~ measuring current operational values and fair values of revalued items of property, plant, and equipment.

Effective date

…

153O. **Paragraphs 7, 92, 94, 101, 125C, 134, and 148 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended. Paragraph 63J is added. New text is underlined, and deleted text is struck through.

Operating Activities

…

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

    (a) Cash receipts from taxes, levies, and fines;

    (b) Cash receipts from charges for goods and services provided by the entity;

    (c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;

    (d) Cash receipts from royalties, fees, commissions, and other revenue;

    (da) Cash payments to beneficiaries of social benefit schemes;

    (e) Cash payments to other public sector entities to finance their operations (not including loans);

    (f) Cash payments to suppliers for goods and services;

    (g) Cash payments to and on behalf of employees;

    (h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;

    (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

    (j) Cash receipts and payments from contracts held for dealing or trading purposes;

    (k) Cash receipts or payments from discontinuing operations; and

    (l) Cash receipts or payments in relation to litigation settlements.

    Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph ~~66~~68 of ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Effective Date

…

63J. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

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

Paragraph 22, IG14, IG15, IG16 and IG17 are amended. Paragraph 59E is added. New text is underlined, and deleted text is struck through.

…

Changes in Accounting Policies

…

22. **The initial application of a policy to revalue assets in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*, or IPSAS 31, *Intangible Assets*, is a change in accounting policy to be dealt with as a revaluation in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31, rather than in accordance with this Standard.**

Effective Date

…

59E. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Implementation Guidance

…

Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

…

IG14. During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the ~~revaluation~~ current value model.

IG15. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their ~~fair~~ current operational values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

IG16. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller component approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a historical cost model to a ~~revaluation~~ current value model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

IG17. Additional information

	CU
Property, Plant, and Equipment	
Cost	25,000
Depreciation	(14,000)
~~Net book value~~ Carrying amount	11,000
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey	
Valuation	17,000
Estimated residual value	3,000
Average remaining assets life (years)	7
Depreciation expense on existing property, plant, and equipment for 20X2 (new basis)	2,000

…

Extracts from Notes to the Financial Statements

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the ~~revaluation~~ current value model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly, the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.

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

Paragraphs 28, 36 and IE4 are amended. Paragraph 71G is added. New text is underlined, and deleted text is struck through.

…

Reporting at Subsequent Reporting Dates

…

28. The carrying amount of an item is determined in conjunction with other relevant IPSASs. For example, property, plant, and equipment may be measured in terms of ~~fair value or~~ historical cost

or current operational value or fair value in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of current operational value or fair value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

Recognition of Exchange Differences

…

36. Other IPSASs require some gains and losses to be recognized directly in net assets/equity. For example, ~~IPSAS 17~~ IPSAS 45 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

Effective Date

…

71G. **Paragraphs 28 and 36 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Illustrative Examples

Foreign Currency Transactions and Advance Consideration

Example 1—A Single Advance Payment for the Purchase of a Single Item of Property, Plant, and Equipment

…

IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant, and equipment applying ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1 20X1 (the date of initial recognition of the non-monetary asset).

…

Amendments to IPSAS 9, *Revenue from Exchange Transactions*

Paragraph 10(c) is amended. Paragraph 41E is added. New text is underlined, and deleted text is struck through.

Scope

…

10. This Standard does not deal with revenue arising from:

(c) Gains from the sale of property, plant, and equipment (which are dealt with in ~~IPSAS 17~~IPSAS 45, Property, Plant, and Equipment);

Effective Date

…

41E. **Paragraph 10(c) was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 12, *Inventories*

Paragraphs 12(d) and 14A are amended. Paragraph 51G is added. New text is underlined, and deleted text is struck through.

…

Inventories

…

12. Inventories in the public sector may include:

…

(d) Spare parts for plant and equipment, other than those dealt with in ~~standards on~~ IPSAS 45, *Property, Plant, and Equipment*;

…

14A. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems. However, some types of missiles may be accounted for in accordance with ~~IPSAS 17~~IPSAS 45, ~~*Property, Plant, and Equipment*~~, if they satisfy the criteria to be classified in that standard.

Effective Date

…

51G. **Paragraph 12(d) and 14A were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 86, 89, and 90 are amended. Headings ahead of paragraphs 65, 85, 90 are amended. Paragraph 101J is added. New text is underlined, and deleted text is struck through.

…

Scope

…

6. This Standard does not apply to:

   (a) Biological assets related to agricultural activity (see IPSAS 27, *Agriculture* and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*); and

   (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

Classification of Property as Investment Property or Owner-Occupied Property

…

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. ~~IPSAS 17~~IPSAS 45~~, *Property, Plant, and Equipment*~~ applies to owned owner-occupied property and IPSAS 43, Leases applies to owner-occupied property held by a lessee as a right-of-use asset.

…

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

   (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

   (b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).

   (c) Owner-occupied property (see ~~IPSAS 17~~IPSAS 45 and IPSAS 43), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

   (d) [Deleted]

   (e) Property that is leased to another entity under a finance lease.

(f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with ~~IPSAS 17~~IPSAS 45.

(g) Property held for strategic purposes which would be accounted for in accordance with ~~IPSAS 17~~IPSAS 45.

…

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, the property would be accounted for as property, plant, and equipment in accordance with ~~IPSAS 17~~IPSAS 45.

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 value model (paragraphs 42-64) or the historical cost model (paragraph 65).

…

Measurement after Recognition

Accounting Policy

39. **With the exception noted in paragraph 41A, an entity shall choose as its accounting policy either the fair value model in paragraphs 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 value model to the historical cost model will result in a more relevant presentation.

41. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to determine 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.

….

Inability to Determine Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably determine 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 on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates 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 but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable 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 on a continuing basis, the entity shall measure that investment property using the historical cost model in ~~IPSAS 17~~IPSAS 45 for owned investment property or in accordance with IPSAS 43 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply ~~IPSAS 17~~IPSAS 45 or IPSAS 43 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~~IPSAS 45 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.

…

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~~IPSAS 45 or IPSAS 43, 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 using the fair value model.

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**

    (a) In accordance with IPSAS 43 if it is held by the lessee as a right-of-use asset; and

    (b) In accordance with the requirements in ~~IPSAS 17~~IPSAS 45 for the historical cost model if it is held by an owner as an owned investment property.

Transfers

…

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the historical 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.

71. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with ~~IPSAS 17~~IPSAS 45, IPSAS 43 or IPSAS 12, shall be its fair value at the date of change in use.**

72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply ~~IPSAS 17~~IPSAS 45 for owned property and IPSAS 43 for property held by a lessee as a right-of-use asset up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 17~~IPSAS 45.**

73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or right-of-use asset) and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 17~~IPSAS 45. In other words:

…

Disposals

…

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 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 Value Model and Historical Cost Model

….

86. **An entity shall disclose:**

(a) **Whether it applies the fair value or the historical cost model;**

(b) [Deleted]

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

(e) **The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on 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. If there has been no such valuation, that fact shall be disclosed;**

(f) **The amounts recognized in surplus or deficit for:**

(i) **Rental revenue from investment property;**

(ii) **Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and**

(iii) **Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.**

(g) **The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and**

(h) **Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.**

…

Fair Value Model

…

89. In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in ~~IPSAS 17~~IPSAS 45 or in accordance with IPSAS 43, 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:

…

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:

(a) **The depreciation methods used;**

(b) **The useful lives or the depreciation rates used;**

(c) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;**

(d) **The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:**

(i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;**

(ii) **Additions resulting from acquisitions through public sector combinations;**

(iii) **Disposals;**

(iv) **Depreciation;**

(v) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(vii) **Transfers to and from inventories and owner-occupied property; and**

(viii) **Other changes; and**

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

(i) **A description of the investment property;**

(ii) **An explanation of why fair value cannot be determined reliably; and**

(iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

…

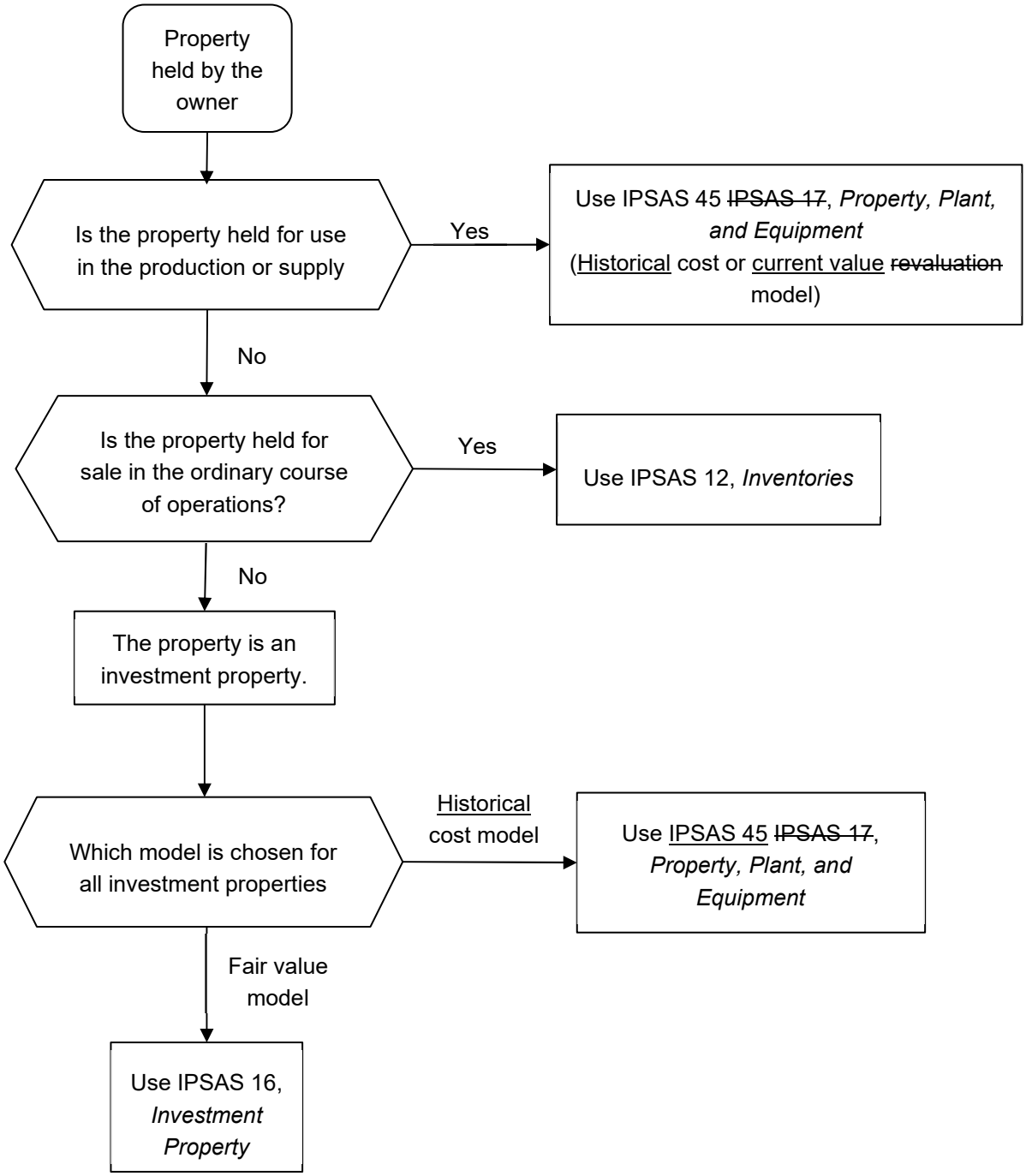
Effective Date

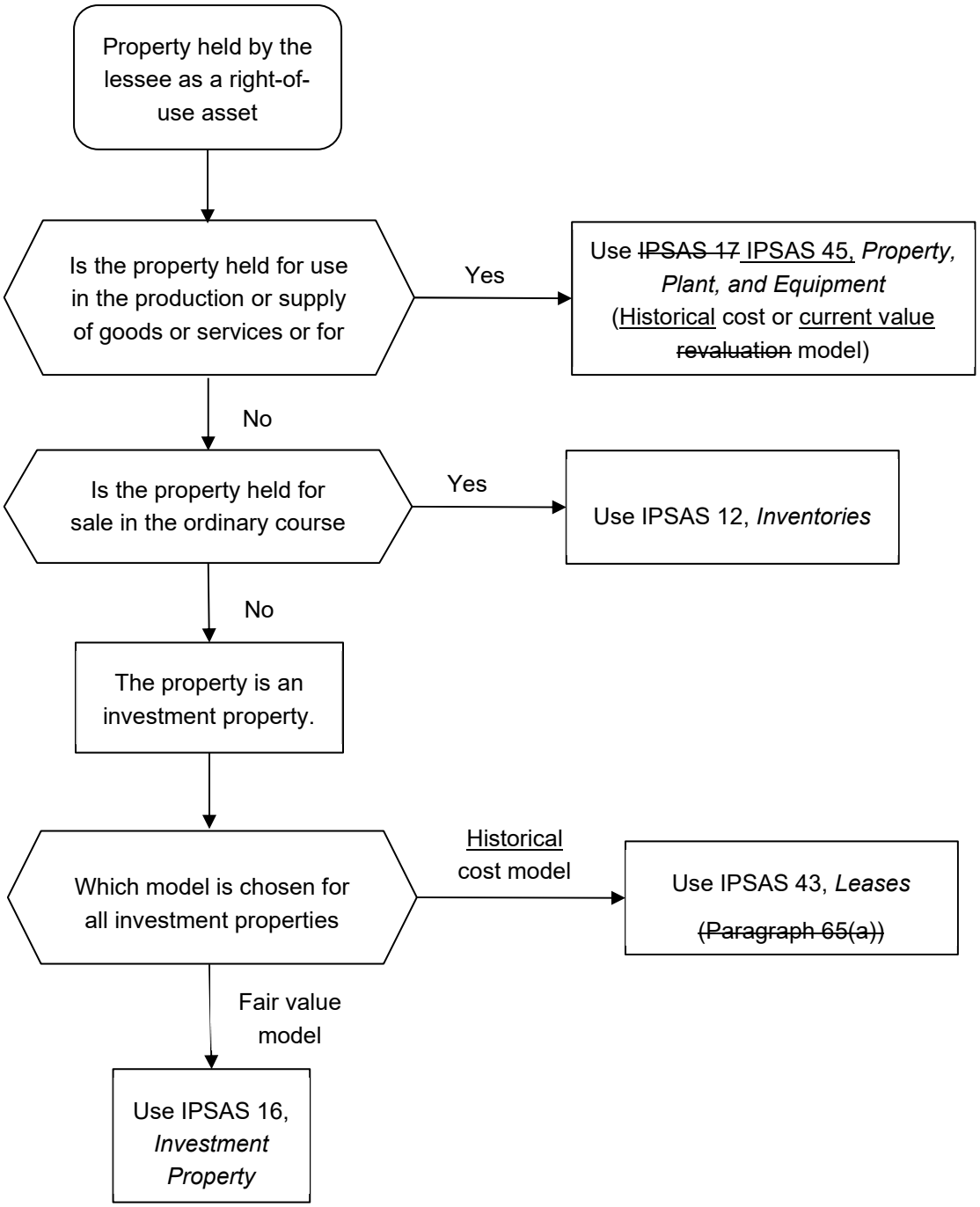
…

101J. **Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 86, 89, and 90 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 16.




Property held by the lessee as a right-of-use asset
Is the property held for use in the production or supply of goods or services or for
Yes
Use ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment* (Historical cost or current value ~~revaluation~~ model)
No
Is the property held for sale in the ordinary course
Yes
Use IPSAS 12, *Inventories*
No
The property is an investment property.
Which model is chosen for all investment properties
Historical cost model
Use IPSAS 43, *Leases* ~~(Paragraph 65(a))~~
Fair value model
Use IPSAS 16, *Investment Property*

Comparison with IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), *Investment Property* and includes amendments made to IAS 40 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 4, *Insurance Contracts*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of those IFRSs. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows. Such property is accounted for in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.
- ~~IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. IAS 40 only contains transitional provisions for entities that have already used IFRSs. IFRS 1 deals with first time adoption of IFRSs. IPSAS 16 includes additional transitional provisions that specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits.~~
- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant example is the use of the term “statement of financial performance” in IPSAS 16. The equivalent term in IAS 40 is “income statement.”
- IPSAS 16 does not use the term “income” which in IAS 40 has a broader meaning than the term “revenue.”

Amendments to IPSAS 18, *Segment Reporting*

Paragraph 37 is amended. Paragraph 76G is added. New text is underlined, and deleted text is struck through.

…

Segment Assets, Liabilities, Revenue, and Expense

…

37. IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an operation acquired in an acquisition. Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an operation acquired in an acquisition, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

Effective Date

…

76G. **Paragraph 37 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 27 and IG16 are amended. Paragraph 111N is added. New text is underlined, and deleted text is struck through.

…

Past Event

…

27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure

to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles, or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognized.

Effective Date

…

111N. **Paragraph 27 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply ~~IPSAS 17~~IPSAS 45 at the same time.**

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

…

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

…

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

Paragraphs 12, 54, 54A, 69, 69A, 75, BC17, BC19, BC20A, BC20B, BC20C, BC20F, BC20H, BC20J, BC25, and BC27 are amended. Paragraph 82L is added. New text is underlined, and deleted text is struck through.

…

Scope

…

12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the ~~allowed alternative treatment~~ current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* are dealt with under IPSAS 26.

Recognizing and Measuring an Impairment Loss

…

54. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

54A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45.

Reversing an Impairment Loss

…

69. **A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

69A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or ~~IPSAS 17~~IPSAS 45.

Disclosure

…

75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by ~~IPSAS 17~~IPSAS 45.

Effective Date

…

82L. **Paragraphs 12, 54, 54A, 69, 69A, and 75 were amended by IPSAS 45 *Property, Plant, and Equipment,* issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Basis for Conclusions

…

Property, Plant, and Equipment and Intangible Assets

BC17. ~~At the time this Standard was approved~~ When this Standard was issued in December 2004, it did not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the revaluation model in IPSAS 17 and IPSAS 31. The IPSASB was then of the view that under the revaluation model in IPSAS 17 and IPSAS 31, assets would be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date, and any impairment would be taken into account in the valuation. Therefore, any difference between the asset's carrying amount and its fair value less costs to sell would be the disposal costs. The IPSASB was then of the view that, in most cases, these would not be material and, from a practical viewpoint, it was not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

…

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 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 cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches may also be adopted to measure fair value under ~~IPSAS 17~~ IPSAS 45 and IPSAS 31 and therefore the value in use is 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 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.

…

Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

BC20A As a consequence of requests from jurisdictions that apply IPSASs, in 2015 the IPSASB revisited the original decision to exclude revalued property, plant, and equipment and intangible assets from the scope of IPSAS 21.

BC20B. ~~The~~ When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC19 and BC20 for the different requirements in IPSAS 21 and IAS 36 remained sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and fair value as required by paragraph 74 of IPSAS 31. In developing IPSAS 45, the IPSASB concluded that the same impairment principles

should apply when revaluing assets to current operational value, as required by paragraph 27 of IPSAS 45.

BC20C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar manner. Paragraph 51 of IPSAS 17 had required~~s~~ an entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

…

BC20F. Although including property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 means that the entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 will not be overly onerous for the preparers of financial statements.

…

Responses to ED 57

BC20H. The majority of the respondents to ED 57 had supported the proposals and the IPSASB's rationale. When this Standard was issued, the ~~The~~ IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17. In developing IPSAS 45, the IPSASB concluded that the same statement should be retained.

…

BC20J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they ~~are~~ were conceptually the same. However, there ~~is~~ was a practical difference. Impairments were ~~are~~ events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference ~~is~~ was reflected in the statement in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

…

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. When this Standard was issued, ~~T~~the IPSASB had~~s~~ not included repair of an asset as an indication of reversal, because IPSAS 17 required~~s~~ 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. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained. This requirement also applieds to investment property that wasis measured using the 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. In developing IPSAS 45, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the cost model in IPSAS 17 is labeled the historical cost model in IPSAS 45 and that label consequentially applies in IPSAS 16.

…

Revision of IPSAS 21 as a result of Improvements to IPSAS, 2019

BC27. TheWhen this Standard was issued the reference to "class of assets" in paragraphs 54A and 69A had created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17, *Property, Plant, and Equipment*. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31 and class of assets in the scope of IPSAS 17. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

Comparison with IAS 36

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.
- IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the ~~allowable alternative treatment~~ current value model in ~~IPSAS 17~~IPSAS 45. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRSs. These have not been excluded from IPSAS 21 because there are not equivalent IPSASs. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*, and (e) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.
- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.
- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue," "recoverable service amount", and "statement of financial performance," in IPSAS 21. The equivalent terms in IAS 36 are "income," "recoverable amount," and "income statement."

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

Paragraphs 13, 42, 43, 83, 97, IG23 and IG58 are amended. Paragraph 43A and 124H are added. New text is underlined, and deleted text is struck through.

Definitions

Revenue

…

13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*.

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~~ current value as at the date of acquisition.

43. Consistent with IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, ~~IPSAS 17 *Property, Plant, and Equipment*~~ IPSAS 31, *Intangible Assets* and IPSAS 41, *Financial Instruments*, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition.

43A. Consistent with IPSAS 45 assets acquired through non-exchange transactions are measured at their deemed cost as at the date of acquisition. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

Transfers

Measurement of Transferred Assets

…

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, and equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and ~~IPSAS 17~~ IPSAS 45. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

Gifts and Donations, including Goods In-kind

…

97. On initial recognition, gifts and donations, including goods in-kind, such as:

    (a) Inventories, investment property, intangible assets, and financial instruments are measured at their fair value at the date of acquisition; and

    (b) Property, plant, and equipment assets are measured at their deemed cost at the date of acquisition;

    ~~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.~~ The primary objective for which an entity holds property, plant, and equipment, in accordance with IPSAS 45, determines the current value measurement basis used to determine deemed cost. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

…

Effective Date

…

124H. **Paragraphs 13, 42, 43, 83, and 97 were amended, and paragraph 43A was added by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Implementation Guidance

Transfer to a Public Sector University with Restrictions (paragraphs 19 and 76)

…

IG23. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its ~~fair~~ current value in accordance with ~~IPSAS 17~~ IPSAS 45. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

…

Interaction Between Measurement Requirements of IPSAS 23 and IPSAS 41

….

Analysis

…

IG58. IPSAS 23 prescribes that assets acquired as part of a non-exchange revenue transaction are initially measured at ~~fair value~~ deemed cost, while IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. As the entity has a policy of measuring investments in shares at fair value through net assets/equity, the transaction costs of CU10,000 are added to the value of the shares of CU1,000,000 on initial measurement.

Amendments to IPSAS 26, Impairment of Cash-Generating Assets

Paragraphs 73, 73A, 108, 108A, 118, BC3, BC4, BC5, BC7, BC7A, BC7B, BC7C, BC7F, BC7H, BC7I, BC7J and BC21 are amended. Paragraph 126N is added. New text is underlined, and deleted text is struck through.

…

Recognizing and Measuring an Impairment Loss

…

73. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45.

…

Reversing an Impairment Loss for an Individual Asset or Class of Asset

…

108. **A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit**, **unless the asset is carried at revalued amount in accordance with another Standard (for example, the ~~revaluation~~current value model in IPSAS 45 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or ~~IPSAS 17~~IPSAS 45.

…

Disclosure

…

118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment at the beginning and end of the period, as required by ~~IPSAS 17~~IPSAS 45.

Effective Date

…

126N. **Paragraphs 73, 73A, 108, 108A, and 118 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Basis for Conclusions

Development of IPSAS 26 Based on the IASB's Revised Version of IAS 36 Issued in 2004

…

Need for this Standard

BC3. When this Standard was issued, IPSAS 21 had referred readers to IAS 36 (a) in order to establish whether cash- generating assets have been impaired, and (b) for accounting for the recognition and measurement of any impairment. There ~~are~~ were benefits in incorporating requirements and guidance on the impairment of cash-generating assets in an IPSAS, so that public sector entities do not have to refer to IAS 36 when an entity has cash-generating assets. In addition, there ~~are~~ were a number of public sector issues related to impairment. These included:

(a) Whether cash-generating property, plant, and equipment carried in accordance with the revaluation model in IPSAS 17, *Property, Plant, and Equipment* should be within the scope;
(b) Distinguishing cash-generating and non-cash-generating assets;
(c) The redesignation of cash-generating assets to non-cash-generating assets and vice-versa; and
(d) The treatment for impairment purposes of non-cash-generating assets in cash-generating units.

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that the identified relationship still applies for issue (a) above.

Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope

BC4. ~~At the time this Standard was approved~~ When this Standard was issued, in February 2008, the scope of IPSAS 21 had excluded non cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 had stated that the IPSASB was of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17-would be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date,

and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore had considered whether a similar scope exclusion should be included in this Standard.

BC5. The IPSASB had acknowledged that property, plant, and equipment held on the revaluation model ~~are~~ were within the scope of IAS 36, and had considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB had noted that in IAS 36, in cases where the fair value of an item of property, plant, and equipment is its market value, the maximum amount of an impairment loss ~~is~~ was the disposal costs. In the Basis for Conclusions for IPSAS 21, it ~~is~~ was stated that "the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset." The IPSASB had considered that disposal costs are also unlikely to be material for cash-generating assets. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable.

…

BC7. ~~The~~ When this Standard was issued, the IPSASB had been ~~was~~ of the view that it would be onerous to impose a requirement to test for impairment in addition to the then existing requirement in IPSAS 17, i.e., that assets ~~will~~ would be revalued with sufficient regularity to ensure that they ~~are~~ were carried at an amount that ~~is~~ would not be materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB had concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant, and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that ~~are~~ were regularly revalued to fair value ~~were~~ would also be excluded from the scope. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that current operational value can be applied instead of fair value and the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

…

***Impairment of Revalued Assets* (Amendments to IPSAS 21 and IPSAS 26)**

BC7A. As a consequence of requests from jurisdictions that apply IPSASs, in 2015 the IPSASB revisited the original decision to exclude property, plant, and equipment and intangible assets from the scope of IPSAS 26.

BC7B. ~~The~~ When this Standard was issued the IPSASB had considered that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 ~~is~~ was sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as was required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31.

BC7C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they ~~are~~ were accounted for in a similar manner. Paragraph 51 of IPSAS 17 requires ~~s~~ the entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class ~~is~~ was revalued. Therefore, if impairment losses and reversals of impairment losses ~~are~~ were interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that this reasoning and consideration are still applicable.

…

BC7F. Although property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 will not be overly onerous for the preparers of financial statements.

Responses to ED 57

BC7H. The majority of respondents to ED 57 supported the proposals and the IPSASB's rationale. The IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17.

BC7I. The IPSASB had acknowledged this view but had considered it inappropriate for two reasons. Firstly, such an approach did not sufficiently address the different methods of determining value in use for non-cash-generating assets when evaluating an asset's recoverable service amount. Such methods are the depreciated replacement cost approach, the restoration cost approach and the service-units approach. Secondly, the approach does not provide the information needed for accountability and decision-making purposes by users that is provided by the disclosures in IPSAS 21 and IPSAS 26. The IPSASB had therefore decided to effect the proposals in ED 57 in a final pronouncement.

BC7J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they are conceptually the same. However, there ~~is~~ was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference ~~is~~ was reflected in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable.

…

Revision of IPSAS 26 as a result of Improvements to IPSAS, 2019

BC21. ~~The~~ When this Standard was issued the IPSASB had noted that the reference to "class of assets" in paragraphs 73A and 108A created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31, *Intangible Assets* and class of assets in the scope of IPSAS 17. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable.

Comparison with IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- IPSAS 26 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the ~~revaluation~~ current value model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.
- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs to sell. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the re designation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.
- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue" and "statement of financial performance." The equivalent terms in IAS 36 are "income" and "income statement."

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3, 4, 6, 37, and BC9 are amended. Paragraph 56I is added. New text is underlined, and deleted text is struck through.

…

Scope

…

3. This Standard does not apply to:

   (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*);

…

4. Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other IPSASs should be considered in determining the appropriate accounting (e.g., IPSAS 12, *Inventories* and ~~IPSAS 17~~IPSAS 45).

…

6. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	**Agricultural produce**	**Products that are the result of processing after harvest**
Sheep	Wool	Yarn, carpet
Trees in a timber plantation forest	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Fruit trees	Picked fruit	Processed fruit
Oil Palms	Picked fruit	Palm Oil
Rubber trees	Harvested latex	Rubber products
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of ~~IPSAS 17~~IPSAS 45. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IPSAS 27.		

…

Inability to Measure Fair Value Reliably

…

37. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IPSAS 12, ~~IPSAS 17~~IPSAS 45, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

Effective Date

…

56I. **Paragraphs 3, 4, 6, and 37 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Basis for Conclusions

…

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

…

BC9. When this Standard was issued, in analyzing approach 3, the IPSASB had considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. IPSAS 23.13 states that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs were ~~are~~ included in the amount recognized as an asset, in accordance with IPSAS 17." In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that this guidance is still applicable. This implies

that for other assets, an entity considers the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 3, 7, 15, 67, AG5, BC9, and IE22 are amended. Paragraphs 3(k) and 11 are deleted. Paragraphs 132M, AG12, AG13, AG14 and BC14-BC15 are added. New text is underlined, and deleted text is struck through.

…

Scope

…

3 **This Standard shall be applied in accounting for intangible assets, except:**

(a) **Intangible assets that are within the scope of another Standard;**

(b) **Financial assets, as defined in IPSAS 28*, Financial Instruments: Presentation;***

(c) **The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources);**

(d) **Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;**

(e) [Deleted]

(f) [Deleted]

(g) **Powers and rights conferred by legislation, a constitution, or by equivalent means;**

(h) **Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);**

(i) **Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts. In cases where the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets; and**

(j) [Deleted]

(k) [Deleted] ~~**In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognized.**~~

…

7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, or as an intangible asset under this Standard, an entity uses judgment to assess which element is more significant. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as property, plant, and

equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

…

Intangible Heritage Assets

…

11. [Deleted] ~~This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.~~

…

15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognized intangible assets. Therefore, entities ~~that recognize intangible heritage assets~~ are required to disclose in respect of ~~those~~ recognized intangible heritage assets such matters as, for example:

    (a) The measurement basis used;

    (b) The amortization method used, if any;

    (c) The gross carrying amount;

    (d) The accumulated amortization at the end of the period, if any; and

    (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

…

Recognition of an Expense

…

67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 52), except when it is acquired as part of an acquisition. Other examples of expenditure that is recognized as an expense when it is incurred include:

    (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with ~~IPSAS 17~~IPSAS 45. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

    (b) Expenditure on training activities;

    (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and

(d) Expenditure on relocating or reorganizing part or all of an entity.

…

Effective Date

…

132M. **Paragraphs 3, 7, 15, 67, and AG5 were amended, paragraphs 3(k) and 11 were deleted, and paragraphs AG12, AG13, and AG14 were added by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

…

AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers, and Internet connections) of a website. Such expenditure is accounted for under ~~IPSAS 17~~IPSAS 45 *Property, Plant, and Equipment*. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's website, the expenditure is recognized as an expense when the services are received.

…

Intangible Heritage Assets: Cost or Fair Value Cannot be Measured Reliably

AG12. Where intangible heritage assets are not recognized in the financial statements because, at initial measurement, their cost or fair value cannot be measured reliably, the entity shall disclose:

(a) The difficulties in obtaining a reliable measurement that prevented recognition; and

(b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

AG13. The disclosures should ensure that, when read in the context of information about recognized intangible assets, the financial statements provide useful and relevant information about the entity's overall holding of intangible assets, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG14. These disclosures may be presented in aggregate for groups or classes of intangible assets, provided this aggregation does not obscure significant information.

…

Basis for Conclusions

…

Revaluation Model

BC9. The revaluation model proposed in IPSAS 31 is similar to that in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. When this Standard was issued, IPSAS 17, *Property, Plant, and Equipment* requireds revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB had considered this approach for intangible assets, but had 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 had concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this conclusion is still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

…

Revision of IPSAS 31 as a result of ED 78, *Property, Plant, and Equipment*

BC14. During development of IPSAS 45, *Property, Plant, and Equipment*, the IPSASB concluded that the heritage nature of an asset does not prevent its recognition. On the basis that the same conceptual arguments apply to intangible heritage as those that apply to heritage property, plant, and equipment the IPSASB decided to remove the heritage scope exclusion in IPSAS 31. This ensures that IPSAS 31's treatment of intangible heritage assets is consistent with the accounting treatment for heritage property, plant, and equipment. Recognition of intangible heritage assets that meet IPSAS 31's recognition criteria will provide information that users of the financial statements find useful for accountability and decision-making.

BC15. The IPSASB considered whether the disclosure requirements in ED 78 for unrecognized heritage property, plant, and equipment should also apply to unrecognized intangible heritage assets. On the basis that disclosure requirements in ED 78 will provide useful information for accountability and decision-making on intangible heritage assets that are not recognized because their cost or fair value cannot be measured reliably, the IPSASB concluded that the same disclosure requirements should apply to intangible heritage assets. The IPSASB decided, therefore, to add application guidance that sets out disclosure requirements with respect to unrecognized intangible heritage assets.

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 31.

…

Examples Illustrating the Application Guidance

IE22. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2-AG3 and to illustrate application of paragraphs AG4-AG11 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

STAGE/NATURE OF EXPENDITURE	**ACCOUNTING TREATMENT**
Planning	
…	…
Application and Infrastructure Development	
…	Apply the requirements of ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. ….
Graphical Design Development	
…	…

…

Comparison with IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

- IPSAS 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.
- IPSAS 31 incorporates the guidance contained in the Standing Interpretation Committee's Interpretation 32, *Intangible Assets—Web Site Costs* as Application Guidance to illustrate the relevant accounting principles.
- IPSAS 31 ~~does not require or prohibit the recognition of~~ includes paragraphs that describe intangible heritage assets, and states that ~~An~~ an entity ~~that recognizes intangible heritage assets~~ is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognized ~~and may, but is not required to, comply with other requirements of this Standard in respect of those intangible heritage assets.~~ It has application guidance that requires disclosure on intangible heritage assets that have not been recognized. IAS 38 does not have similar guidance.
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions. IPSAS 31 states that where an intangible asset is acquired through a non-exchange transaction, the cost is its fair value as at the date it is acquired.
- IAS 38 provides guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 31 does not include this guidance.
- The examples included in IAS 38 have been modified to better address public sector circumstances.
- IPSAS 31 uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms "revenue," "statement of financial performance," "surplus or deficit," "future economic benefits or service potential," "accumulated surpluses or deficits," "operating/operation," "rights from binding arrangements (including rights from contracts or other legal rights)," and "net assets/equity" in IPSAS 31. The equivalent terms in IAS 38 are "income," "statement of comprehensive income," "profit or loss," "future economic benefits," "retained earnings," "business," "contractual or other legal rights," and "equity."

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35, AG48, BC49, BC50, IG2, IG4, IE6, IE8, IE15, IE17, IE22, IE30, and IE39 are amended. Paragraph 36F is added. New text is underlined, and deleted text is struck through.

…

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5-AG35)

…

12. **Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted**

for in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*, as appropriate.

13. **After initial recognition or reclassification, service concession assets shall be accounted for in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.**

…

Presentation and Disclosure (see paragraphs AG65-AG67)

…

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure is in addition to the disclosures required in ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 or may be included in more than one class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31. For example, for the purposes of ~~IPSAS 17~~IPSAS 45 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

…

Effective Date

…

36F. **Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35, and AG48 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Application Guidance

This Appendix is an integral part of IPSAS 32.

…

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9-13)

Recognition of a Service Concession Asset

…

AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer or surface of a road or the roof of a building), the asset is considered as a whole. Thus, the condition in paragraph 9(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

…

Existing Asset of the Grantor

…

AG16. In applying the impairment tests in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 43.

…

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognizes and measures the asset in accordance with this Standard. ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, set out the criteria for when a service concession asset should be recognized. Both ~~IPSAS 17~~IPSAS 45 and IPSAS 31 require that an asset shall be recognized if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The ~~cost or fair value of the~~ item can be measured reliably.

…

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor must have reliable information about the historical cost or current operational value or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in ~~IPSAS 17~~IPSAS 45 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of ~~fair value~~ current value measurement basis on initial recognition does not constitute a revaluation under ~~IPSAS 17~~IPSAS 45 or IPSAS 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(h) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

(i) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in ~~IPSAS 17~~IPSAS 45 and IPSAS 31.

…

Separable Payments

…

AG30. ~~IPSAS 17~~IPSAS 45 and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

…

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph ~~38~~ 21 of ~~IPSAS 17~~IPSAS 45 and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.

…

Subsequent Measurement

AG35. After initial recognition, a grantor applies ~~IPSAS 17~~IPSAS 45 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21 and IPSAS 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

…

Recognition and Measurement of Liabilities (see paragraphs 14-28)

…

Grant of a Right to the Operator Model (see paragraphs 24-26)

…

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognized and the liability recognized in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.

…

Basis for Conclusions

…

Revision of IPSAS 32 as a result of Part II of *Improvements to IPSASs 2015*: issues raised by stakeholders

BC49. ~~The~~ When this Standard was issued the IPSASB had its attention drawn to a possible inconsistency between the requirements in IPSAS 32 and the requirements in IPSAS 17 and IPSAS 31. The requirements in IPSAS 32 could have been seen as requiring service concession assets to be presented as a single class of assets, even if they were of a dissimilar nature and function. As it ~~is~~ was not the intention of the IPSASB to require that dissimilar assets be reported as if they were similar, the IPSASB had decided to propose clarifications to IPSAS 32 to make its intentions clear. The IPSASB had considered whether these changes would reduce the information available to users, but ~~is~~ was satisfied that the then current disclosure requirements, in particular those in paragraph 32, would ensure high quality disclosures about assets subject to service concession arrangements. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable.

BC50. The IPSASB had noted that the reclassification of service concessions assets could require a change in measurement basis for some entities. For example, some service concession assets measured using the revaluation model, might have been reclassified into a class of assets measured using the cost model. Equally, some service concession assets that were measured using the cost model, might have been reclassified into a class of assets measured using the revaluation model. Because the balance between the service concession assets and the other assets in a class will vary from entity to entity, the IPSASB had agreed to permit entities to select the measurement basis to be applied at the point of reclassification. The IPSASB had also noted that the information required to retrospectively apply the cost model might not have been readily available. Consequently, the IPSASB had agreed to permit entities to use the carrying amounts determined under the revaluation model as deemed cost at the point of reclassification where an entity elect~~s~~ed to measure a class of assets using the cost model. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45, while the cost model in IPSAS 17 is labeled the historical cost model.

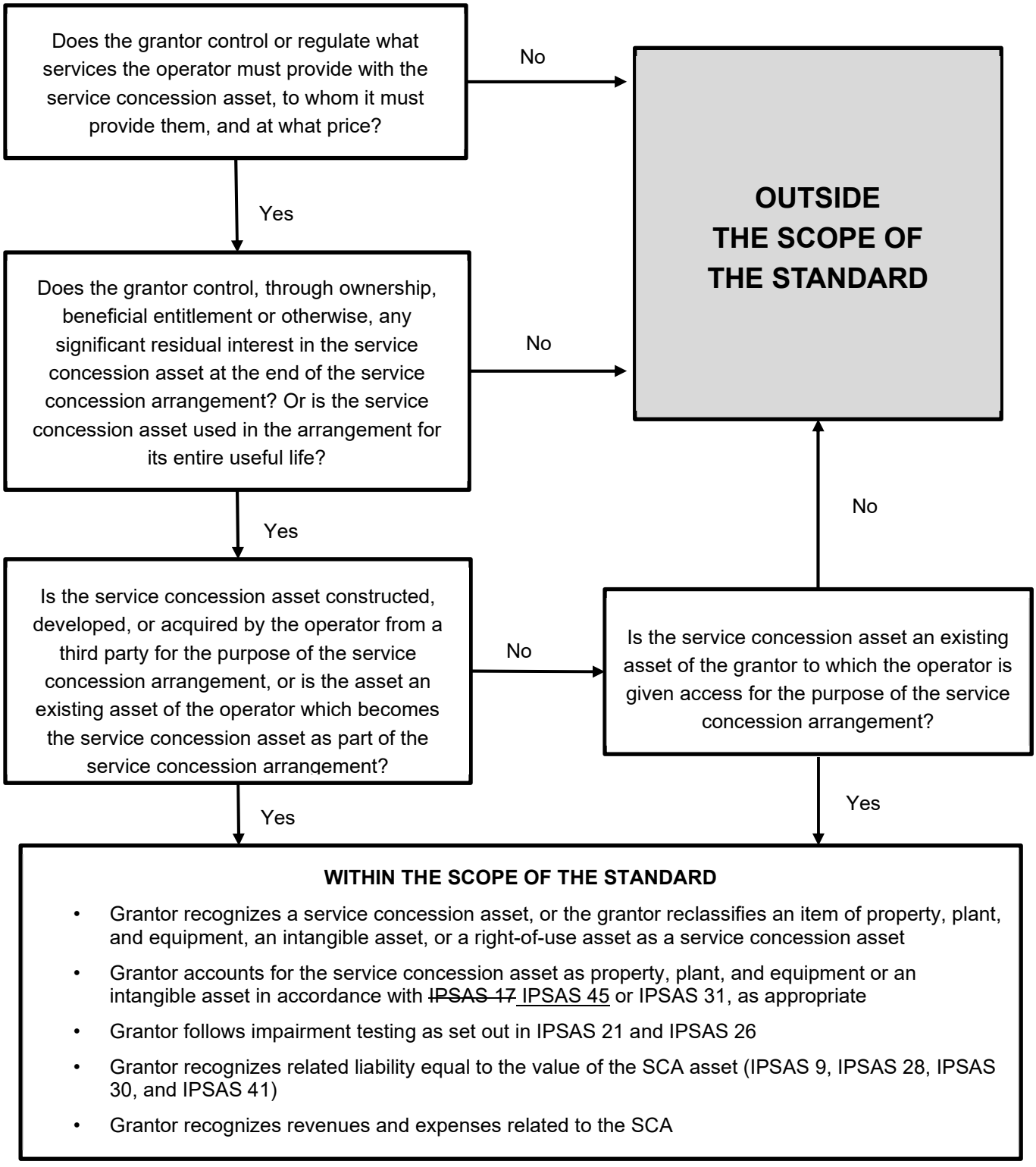
…

Implementation Guidance

…

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.



References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

…

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	**Lessee**	**Service provider**			**Owner**	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years		Indefinite (or may be limited by binding arrangement or license)	
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 43	IPSAS 1	This IPSAS/~~IPSAS 17~~IPSAS 45/IPSAS 31		~~IPSAS 17~~IPSAS 45/IPSAS 31 (derecognition) …	

Illustrative Examples

…

Arrangement Terms (Common to All Three Examples)

…

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs. It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base (substructure) and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

…

IE8. At the beginning of year 3, the total fair value of the road is CU1,050, comprised of CU940 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with ~~IPSAS 17~~IPSAS 45. The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

…

IE15. The grantor's accounting policy for property, plant, and equipment is to recognize such assets using the historical cost model specified in ~~IPSAS 17~~IPSAS 45.

Exhibit 1: Fair Values of the Components of the Arrangement (Currency Units)

Arrangement Component	Fair Value
Road – base layers (substructure)	940
Road – original surface layers	110
Total fair value of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

…

Financial Statement Impact

IE17. The grantor initially measures the service concession asset as property, plant, and equipment at its fair value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers), starting from year 3.

…

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE22. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

…

Table 1.2 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)
Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)

Annual surplus/ (deficit)	–	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
2. Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph ~~76~~57 of ~~IPSAS 17~~IPSAS 45 requires that, "The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity." Likewise, for intangible assets, paragraph 96 of IPSAS 31 requires that, "The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life."

Table 1.3 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/deficit	–	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

…

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

…

…

Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

…

Table 2.2 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	–	–	–	–	–	–	–	–
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	–
Cumulative surplus/deficit	–	–	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 2.2).

The liability is increased in year 8 for the recognition of the new component of the service concession asset.

…

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

…

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

…

IE39 The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the liability and Table 3.5 shows the changes in the financial liability.

Table 3.3 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	–
Financial liability	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	–
Cumulative surplus/deficit	–	16	38	59	74	86	93	95	95	91

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 3.2).

The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

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

Paragraphs 36, 48, 49, 64, 66, 67, 68, 69, 129, BC43, BC57, BC58, BC80, BC82, BC92, BC93, IG14, IG22, IG23, IG53, IG54, IG55, IG56, IG57, IG58 and IG91 are amended. Heading ahead of paragraph IG53 is amended. Paragraph 154L is 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

36. Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

(a) **Inventories (see IPSAS 12, *Inventories*);**

(b) **Investment property (see IPSAS 16, *Investment Property*);**

(c) **Property, plant, and equipment (see ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*);**

(d) **Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);**

(e) **Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);**

(f) **Intangible assets (see IPSAS 31, *Intangible Assets*);**

(fa) **Right-of-use assets and the related lease liabilities (see IPSAS 43, Leases);**

(g) **Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);**

(h) **Financial instruments (see IPSAS 41, *Financial Instruments*); and**

(i) **Social benefits (see IPSAS 42, *Social Benefits*).**

…

Other Exemptions

…

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

48. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure property, plant, and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for ~~IPSAS 17~~IPSAS 45 has expired, and/or the relevant asset is recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).**

49. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize and/or measure property, plant, and equipment. ~~IPSAS 17~~IPSAS 45 requires an entity to include as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant, and equipment, a first-time adopter is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption that provided

the relief has expired, and/or when the relevant asset is recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier). The liability shall be measured as at the date of adoption of IPSASs, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognized and/or measured in accordance with the applicable IPSASs.

…

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

64. **A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:**

(a) **Inventory (see IPSAS 12);**

(b) **Investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16;**

(ba) **Right-of-use assets (see IPSAS 43);**

(c) **Property, plant, and equipment (see ~~IPSAS 17~~IPSAS 45);**

(d) **Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:**

(i) **The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**

(ii) **The criteria in IPSAS 31 for revaluation (including the existence of an active market);**

(e) **Financial Instruments (see IPSAS 41); or**

(f) **Service concession assets (see IPSAS 32).**

…

66. The use of deemed cost is not considered a revaluation or the application of the ~~fair~~ current value model for subsequent measurement in accordance with other IPSASs.

67. **A first-time adopter may elect to use the ~~revaluation~~ current value of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**

(a) **Current operational value or ~~F~~fair value; or**

(b) **Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.**

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at current operational value or fair value at one particular date because of a specific event:

    (a) If the measurement date is at or before the date of adoption of IPSASs, a first-time adopter may use such event-driven current operational value or fair value measurements as deemed cost for IPSASs at the date of that measurement.

    (b) If the measurement date is after the date of adoption of IPSASs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven current operational value or fair value measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.

69. In determining the current operational value or fair value in accordance with paragraph 67, the first-time adopter shall apply the definition of current operational value or fair value and guidance in other applicable IPSASs in determining the current operational value or fair value of the asset in question. The current operational value or fair value shall reflect conditions that existed at the date on which it was determined.

…

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

129. **If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:**

    (a) **The carrying amounts determined in accordance with this IPSAS that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSASs, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity; or**

    (b) **The carrying amounts required by the rest of this IPSAS, based on the controlled entity's date of adoption of IPSASs. These carrying amounts could differ from those described in (a):**

        (i) **When the exemptions in this IPSAS result in measurements that depend on the date of adoption of IPSASs.**

        (ii) **When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the historical cost model in ~~IPSAS 17~~IPSAS 45, whereas the economic entity may use the ~~revaluation~~current value model.**

…

Effective Date

…

154L. **Paragraphs 36, 48, 49, 64, 66, 67, 68, 69, and 129 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Basis for Conclusions

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

…

BC43. In considering the relief that should be provided to a first-time adopter for the recognition of its assets when this Standard was issued, the IPSASB had considered the then existing five year relief period in IPSAS 17. To encourage entities to prepare for the adoption of IPSASs in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB had agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSASs and not solely rely on the relief period provided in this IPSAS, the IPSASB was ~~is~~ of the view that the three year transitional period ~~is~~ was more manageable, and would reduce~~s~~ the period over which entities would ~~will~~ not be able to assert compliance with IPSASs. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

…

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSASs

…

BC57. When this Standard was issued, IPSAS 17 required~~s~~ an entity to include, as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17 required~~s~~ that the obligation for costs accounted for in accordance with IPSAS 17 was~~is~~ recognized and measured in accordance with IPSAS 19.

BC58. The IPSASB had agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time as the relevant item of property, plant, and equipment ~~is~~ was recognized and/or measured in accordance with IPSAS 17. A transitional relief period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable.

…

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

Deemed Cost

Deemed Cost for Assets and/or Liabilities

BC80. Some measurements in accordance with IPSASs are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly and/or impractical. To avoid excessive cost, this IPSAS allows a first-time adopter to use the fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the historical cost model in IPSAS 16, property, plant and equipment, financial instruments and service concession assets at the date of adoption of IPSASs. 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, the fair value is the deemed cost at the date at which the asset is recognized and/or measured during the period of transition.

…

BC82. ~~Under~~ When this Standard was issued, under the revaluation model in IPSAS 17, if an entity revalue~~d~~s an asset, it ~~must~~ had to revalue all assets in that class. This restriction prevente~~d~~s selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, *Impairment of Non-cash-generating Assets* and IPSAS 26, *Impairment of Cash-generating Assets* require~~d~~s an impairment test if there ~~is~~ was any indication that an asset ~~is~~ was impaired. Thus, if a first-time adopter use~~d~~s fair value as deemed cost for assets whose fair value ~~is~~ was likely to be above cost, it could not ~~cannot~~ ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable when current operational value or fair value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

…

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC92. ~~The~~ When this Standard was issued, the IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost, if previous revaluations already complie~~d~~y with IPSASs. This IPSAS therefore allowe~~d~~s a first-time adopter to use a revaluation under its previous basis of accounting for property, plant, and equipment determined at or before the date of adoption of IPSASs, as deemed cost. This was allowed to ~~may~~ be used if the revaluation ~~is~~ was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.

BC93. In determining “fair value”, 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 stated~~s~~ that if market-based evidence ~~is~~ was not available to measure items of property, plant, and equipment, an entity could ~~can~~ estimate fair value using replacement cost, reproduction cost or a service units approach. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles have been moved to IPSAS 46, *Measurement*. In reaching this conclusion, the IPSASB noted that IPSAS 45 refers to historical cost rather than cost and uses current operational value rather than fair value.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

IG14 If a first-time adopter has not adopted any of the exemptions in IPSAS 33 that affect fair presentation and its ability to claim compliance with accrual basis IPSASs, its first accrual financial statements will also be its first IPSAS financial statements.

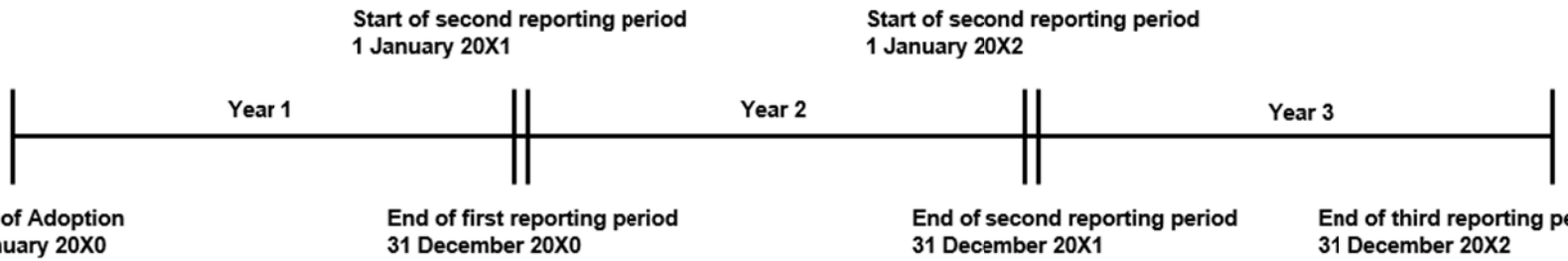
To illustrate:

Timeline – First Time Adoption IPSAS (assuming that entity elects to apply the three year transitional relief for the recognition and/or measurement of certain assets)

An entity adopts accrual basis IPSAS on 1 January 20X0 by applying IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

The first-time adopter elects to apply the three-year relief for the recognition of property, plant, and equipment. Assume that it does not adopt any other relief periods. It also elects not to present comparative information.

The first-time adopter recognizes all property, plant, and equipment by 31 December 20X0.



Year 1 (ending 31 December 20X0) – First Transitional IPSAS Financial Statements
Cannot assert compliance with accrual basis IPSASs

Present the following statements:
*opening statement of financial position as at 01/01/20X0 *statement of financial position as at 31/12/20X0
*statement of financial performance for 31/12/20X0
*statement of changes in net assets as at 31/12/20X0
*cash flow statement for 31/12/20X0
*statement of comparison of budget and actual information for 31/12/20X0
(depending on the policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
*reconciliation of changes from its previous basis of accounting (reflect adjustments related to the adoption of all IPSASs besides ~~IPSAS 17~~ IPSAS [X])

Note: If the first-time adopter elected to present comparative information, the following statements shall have been presented:
*opening statement of financial position as at 01/01/19X0
*statement of financial position as at 31/12/19X0 and 31/12/20X0
*statement of financial performance for 31/12/10X0 and 31/12/20X0
*statement of changes in net assets as at 31/12/19X0 and 31/12/20X0
*cash flow statement for 31/12/19X0 and 31/12/20X0
*statement of comparison of budget and actual information for 31/12/19X0 and 31/12/20X0

Year 2 (ending 31 December 20X1) – Transitional IPSAS Financial Statements
Cannot assert compliance with IPSASs

Present the following statements for both 31/12/20X1 and 20X0:
*statement of financial position
*statement of financial performance
*statement of changes in net assets
*cash flow statement

Present the statement of comparison of budget and actual information for 31/12/20X1 only (depending on policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements)

Year 3 (ending 31 December 20X3) – First IPSAS Financial Statements
Can assert compliance with IPSASs

Present the following statements for both 31/12/20X2 and 20X1:
*statement of financial position
*statement of financial performance
*statement of changes in net assets *cash flow statement

Present the statement of comparison of budget and actual information for 31/12/20X2 only (depending on policy chosen for presentation of information, the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
*reconciliation of adjustments made to recognize property, plant and equipment

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

…

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant, and Equipment

IG22. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* recognizes that in some cases, the construction or commissioning of an item of property, plant, and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant, and equipment and restore the site on which the asset is located. An entity is required to apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* in recognizing and measuring the resulting provision to be included in the initial cost of the item of property, plant, and equipment.

IG23. IPSAS 33 provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, until such time as the exemption for ~~IPSAS 17~~IPSAS 45 expires and/or the relevant asset is recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

…

~~IPSAS 17~~IPSAS 45, Property, Plant, and Equipment

IG53. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSASs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraph 22 and 26 of IPSAS 33 and paragraph ~~76~~57 of ~~IPSAS 17~~IPSAS 45). However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSASs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSASs.

IG54. A first-time adopter may elect to use one of the following amounts as the deemed cost of property, plant, and equipment:

(a) Current operational value or ~~F~~fair value at the date of adoption of IPSASs (paragraph 67 of IPSAS 33), in which case the first-time adopter provides the disclosures -required by paragraph 148 of IPSAS 33; or

(b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS 33.

IG55. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter determined the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

IG56. If a first-time adopter chooses as its accounting policy the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 for some or all classes of property, plant, and equipment, it presents the

cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSASs is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the current operational value or fair value at the date of adoption of IPSASs or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier), the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33.

IG57. If revaluations in accordance with the first-time adopter's previous basis of accounting did not satisfy the criteria in paragraphs 67 or 69 of IPSAS 33, the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

(a) Historical ~~C~~cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the historical cost model in ~~IPSAS 17~~IPSAS 45;

(b) Deemed cost, being the current operational value or fair value or an alternative when market-based evidence of current operational value or fair value is not available, at the date of adoption of IPSASs, or 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, the date at which the asset is recognized and/or measured during the period of transition, or when the transitional exemptions expire (whichever is earlier); or

(c) A revalued amount, if the entity adopts the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 as its accounting policy in accordance with IPSASs for all items of property, plant, and equipment in the same class.

IG58. ~~IPSAS 17~~IPSAS 45 requires each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, ~~IPSAS 17~~IPSAS 45 does not prescribe the unit of measurement for recognition of an asset, i.e. what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances (see paragraphs ~~18~~8 and ~~59~~41).

…

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

…

IPSAS	**Transitional exemption provided**								
	NO	**YES**							
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances,**	**Other**

					measurement		**revenue and expenses**	
…	…	…	…	…	…	…	…	…
~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*		√	√ Property, plant, and equipment not recognized under previous basis of accounting	√ Property, plant, and equipment recognized under previous basis of accounting				

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

…

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and -compliance with accrual basis IPSAS	Do not affect fair -presentation and -compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
…	…	…	…
~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
…	…	…	…

…

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraph 33 is amended. Paragraph 51K is added. New text is underlined, and deleted text is struck through.

…

Application of the Equity Method

…

Equity Method Procedures

…

33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment.* If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

…

Effective Date

…

51K. **Paragraph 33 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 11, 53, and 123 are amended. Paragraph 176C is added. New text is underlined, and deleted text is struck through.

…

Short-Term Employee Benefits

…

Recognition and Measurement

All Short-Term Employee Benefits

11. **When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:**

    (a) **As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize**

that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) **As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IPSAS 12, *Inventories*, and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*).**

…

Post-Employment Benefits—Defined Contribution Plans

…

Recognition and Measurement

53. When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:

(a) **As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**

(b) **As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12 and ~~IPSAS 17~~IPSAS 45).**

…

Components of Defined Benefit Cost

…

123. Other IPSASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant, and equipment (see IPSAS 12 and ~~IPSAS 17~~IPSAS 45). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

…

Effective Date

…

176C. **Paragraphs 11, 53 and 123 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 40, Public Sector Combinations

Paragraphs BC82, IE167, IE168, IE169, IE170, IE171, IE180, IE185, and IE192 are amended. New text is underlined, and deleted text is struck through.

…

Basis for Conclusions

…

Accounting for Amalgamations (paragraphs 15-57)

…

Measurement Period

…

BC82. ~~The~~ When this Standard was issued, the IPSASB had considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity's accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant, and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate. In developing IPSAS 45, *Property, Plant, and Equipment,* the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45 and IPSAS 17 referred to cost and fair value, while IPSAS 45, *Property, Plant, and Equipment,* refers to historical cost, current operational value and fair value.

…

Illustrative Examples

…

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26-27 and 36 of IPSAS 40

…

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45.

IE168. RE adopts an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~current value model. RE seeks an independent valuation for the items of property, plant, and equipment previously controlled by COA.

IE169. On receiving the independent valuation for the items of property, plant, and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant, and equipment as follows, with the corresponding entry being made to components of net assets/equity:

…

IE170. RE also reviews the carrying amounts of the items of property, plant, and equipment previously controlled by COB to ensure the amounts are up to dates at 1 October 20X5. The review confirms the carrying amounts of the items of property, plant, and equipment previously controlled by COB are up to date and that no adjustment is required.

IE171. RE recognizes the items of property, plant, and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph ~~67~~48 of ~~IPSAS 17~~IPSAS 45, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

…

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37-39 of IPSAS 40

…

IE180. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model. RE has adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model. RE obtains an independent valuation for the items of property, plant, and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant, and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

…

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40-44 of IPSAS 40.

…

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the ~~revaluation~~ current value model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the ~~revaluation~~ current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and

CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

…

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53-57 of IPSAS 40.

…

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. 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				
		Original Amount (CU)	**Adjustment (CU)**	**Revised Amount (CU)**
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant, and equipment recorded by COA to measure the items using the ~~revaluation~~ current value model	12,116	17,954	30,070

…

Amendments to IPSAS 41, Financial Instruments

ParagraphBC11 is amended and BC11A is added. New text is underlined.

….

Basis for Conclusions

…

Initial Measurement

…

BC11. The IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that financial assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

BC11A. During the development of IPSAS 45, *Property, Plant, and Equipment* and IPSAS 46, *Measurement*, the requirement in IPSAS 23 for initial measurement of financial assets received through a non-exchange transaction was clarified to reflect that these are measured at fair value.

Amendments to IPSAS 43, *Leases*

Paragraphs 5, 31, 32, 36, 60, 84, 94, and AG45 are amended. Paragraph 103B is added. Heading ahead of paragraph 31 is amended. New text is underlined, and deleted text is struck through.

…

Definitions

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

….

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. The defined term useful life is used in this Standard with the meaning as in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.

….

Lessee

….

Subsequent measurement

….

Historical Cost Model

31. To apply ~~a~~ historical cost model, a lessee shall measure the right-of-use asset at cost:

(a) Less any accumulated depreciation and any accumulated impairment losses; and

(b) Adjusted for any remeasurement of the lease liability specified in paragraph 37(c).

32. A lessee shall apply the depreciation requirements in ~~IPSAS 17~~IPSAS 45 in depreciating the right-of-use asset, subject to the requirements in paragraph 33.

….

Other Measurement Models

….

36. If right-of-use assets relate to a class of property, plant, and equipment to which the lessee applies the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, a lessee may elect to apply that ~~revaluation~~ current value model to all of the right-of-use assets that relate to that class of property, plant, and equipment.

….

Disclosure

….

60. If a lessee measures right-of-use assets at revalued amounts applying ~~IPSAS 17~~IPSAS 45, the lessee shall disclose the information required by paragraph ~~92~~74 of ~~IPSAS 17~~IPSAS 45 for those right-of-use assets.

….

Lessor

Operating leases

Recognition and Measurement

….

84. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with ~~IPSAS 17~~IPSAS 45 and IPSAS 31.

….

Disclosure

Operating leases

94. For items of property, plant, and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of ~~IPSAS 17~~IPSAS 45. In applying the disclosure requirements in ~~IPSAS 17~~IPSAS 45, a lessor shall disaggregate each class of property, plant, and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by ~~IPSAS 17~~IPSAS 45 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

….

Effective Date

…

103B. **Paragraphs 5, 31, 32, 36, 60, 84, 94, and AG45 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Application Guidance

…

Lessee Involvement with the Underlying Asset before the Commencement Date

Costs of the lessee relating to the construction or design of the underlying asset

….

AG45. If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as ~~IPSAS 17~~IPSAS 45. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

…

Amendments to IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations

Paragraphs 16, 32, 37 and BC7 are amended. Paragraph 58A is added. New text is underlined, and deleted text is struck through.

…

Classification of Non-current Assets (or Disposal Groups) as Held for Sale or as Held for Distribution to Owners

….

16. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.

….

Recognition of Impairment Losses and Reversals

….

32. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition. Requirements relating to derecognition are set out in:

    (a) Paragraphs ~~82-87~~62-68 of ~~IPSAS 17~~IPSAS 45 for property, plant, and equipment; and

    (b) Paragraphs 111-116 of IPSAS 31 *Intangible Assets* for intangible assets.

…

37. The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in surplus or deficit[7] from continuing operations in the period in which the criteria in paragraphs 12-15 or 19, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-

current asset that ceases to be classified as held for sale or as held for distribution to owners is a controlled entity, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of financial performance used to present a gain or loss, if any, recognized in accordance with paragraph 47.

7 Unless the asset is property, plant, and equipment or an intangible asset that had been revalued in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 31 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

Effective Date

…

58A. **Paragraphs 16, 32, and 37 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

…

Basis for Conclusions

…

Scope

…

BC7. ~~The~~ When this Standard was issued, the IPSASB had also discussed whether disclosures requiring the carrying amount of surplus non-current assets or non-current assets that are to be transferred to other public sector entities should have been added to IPSAS 45~~17~~, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The IPSASB had decided that because these transactions were ~~are~~ beyond the scope of IPSAS 44 (as noted above in BC 6) and were ~~are~~ not consequential amendments arising from this Standard, it ~~is~~ was not appropriate to include a requirement for such disclosures in IPSAS 44. The IPSASB had also noted that IPSAS 45~~17~~ encourage~~d~~s disclosures for temporarily idle property, plant, and equipment, and property, plant, and equipment retired from active use that is not within the scope of IPSAS 44. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Introduction

BC1. IPSAS 17, *Property, Plant, and Equipment* was drawn primarily from International Accounting Standard (IAS) 16 (Revised 2003), *Property, Plant, and Equipment*. The IPSASB reviewed IASB's improvements to IFRS and narrow scope amendments to IAS 16 (up to May 2020) and generally concurred with the IASB's reasons for revising the IAS and with the amendments made with the exception noted in paragraphs BC24. The IPSASB revised IPSAS 17 to reflect these improvements and amendments, as appropriate.

BC2. After considering responses to the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, and constituents' feedback on infrastructure assets the IPSASB concluded that:

(a) IPSAS 17 should fully apply to heritage assets that are property, plant, and equipment; and

(b) Additional authoritative and non-authoritative guidance should be included in IPSAS 45 to clarify its application to heritage and infrastructure assets.

This resulted in the development of ED 78, *Property, Plant, and Equipment* proposing the replacement of IPSAS 17.

Background

Development of ED 78, Property, Plant, and Equipment

BC3. In March 2020, the IPSASB had agreed that heritage assets should be recognized as property, plant, and equipment when they satisfy the IPSAS 17 definition and the recognition criteria (see paragraph 6). Because heritage assets are subsets of property, plant, and equipment and should be treated in accordance with the principles in IPSAS 17.

BC4. The IPSASB developed ED 78 to update its existing property, plant, and equipment guidance in IPSAS 17 to help constituents apply the principles to heritage and infrastructure assets. To this effect, additional authoritative, and non-authoritative guidance was issued. The IPSASB notes that such guidance is applicable to all property, plant, and equipment.

Heritage Assets: Additional Guidance

BC5. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional authoritative guidance to support the application and implementation of this Standard's principles to heritage assets. On the basis that no principles existed to address these topics, the IPSASB decided to add authoritative guidance on:

(a) Characteristics of heritage assets (see paragraphs AG2-AG3);

(b) Heritage assets as a resource and assessment of control (see paragraphs AG9-AG11);

(c) Depreciation (see paragraphs 52-55 and AG28); and

(d) Disclosures on unrecognized heritage assets (see paragraphs 77-78 and paragraphs AG37-AG38).

BC6. When developing ED 78, the IPSAS had considered whether IPSAS 45 should include additional non-authoritative guidance to enhance the consistency of entities' application and implementation

of IPSAS 45 to heritage assets. On this basis, the IPSASB decided to add non-authoritative guidance on:

(a) Control (see paragraphs IG6-IG8);

(b) Recognition related to subsequent expenditure on unrecognized heritage assets (see paragraph IG9);

(c) Capitalization thresholds (see paragraphs IG10-IG14);

(d) Measurement at current value (see paragraphs IG18-IG21); and

(e) Depreciation related to useful lives (see paragraphs IG30-IG33).

BC7. In developing IPSAS 45, the IPSASB decided to include additional non-authoritative guidance as noted in this Basis for Conclusions:

(a) Measurement of Heritage Assets (see Decision Tree in the Implementation Guidance); and

(b) Measurement at current value (see paragraphs IG15-IG17).

Infrastructure Assets: Additional Guidance

BC8. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional guidance to enhance the consistency of entities' application and implementation of IPSAS 45 to infrastructure assets. The IPSASB decided to add authoritative guidance on:

(a) Characteristics and examples of infrastructure assets (see paragraphs AG4-AG6);

(b) Assessment of control (see paragraphs AG10-AG11); and

(c) Identifying parts of infrastructure assets (see paragraph AG24).

BC9. When developing ED 78, the IPSAS had considered whether IPSAS 45 should include non-authoritative guidance to enhance the consistency of the entities' application and implementation of IPSAS 45. On this basis, the IPSASB decided to add non-authoritative guidance on:

(a) Control of land under or over infrastructure assets (see paragraphs IG1-IG5 and IE1-IE5);

(b) Capitalization thresholds (see paragraphs IG10-IG14);

(c) Valuing land under or over infrastructure assets (see paragraphs IG23-IG25);

(d) Identifying parts of infrastructure assets (see paragraphs IG34-IG38);

(e) Use of information in asset management plans for financial reporting (see paragraphs IG39-IG40); and

(f) Under-maintenance of assets (see paragraphs IG41-IG44).

No Additional Guidance

BC10. When developing ED 78, on the basis that sufficient guidance existed, the IPSASB had concluded that no additional guidance was needed in IPSAS 45 to address:

(a) A separate definition for infrastructure assets because they are property, plant, and equipment;

(b) Spare parts for infrastructure assets;

(c) Costs to dismantle infrastructure assets;

(d) Separately accounting for land under or over infrastructure assets;

(e) Renewals accounting;

(f) Impairment; and

(g) Derecognition.

The IPSASB included its rationale for not adding guidance to address these issues in the Basis for Conclusions to inform constituents that the IPSASB had considered these issues.

IPSAS 45, Property, Plant, and Equipment

BC11. This Standard replaces IPSAS 17, *Property, Plant, and Equipment* and is based on IAS 16, *Property, Plant, and Equipment*. In accordance with existing practice, this Basis for Conclusions outlines only those areas where IPSAS 45 departs from the main requirements of IAS 16[2] or where the IPSASB considered further guidance is needed to enhance consistent application of principles to address a prevalent public sector specific issue.

BC12. When developing this Standard, the IPSASB decided to relocate IPSAS 17 guidance that supports core principles to the application guidance, generic measurement guidance to IPSAS 46, *Measurement*, and add guidance for accounting for heritage assets and infrastructure assets in scope of the Standard. Responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the structure or principles in IPSAS 45.

Scope

Remove the Heritage Scope Exclusion Paragraphs

BC13. The IPSASB concluded that the principles in IPSAS 45 should fully apply to heritage assets and decided to remove the scope exclusion for heritage assets, on the basis that:

(a) Recognition of heritage assets will increase the transparency of heritage-related financial information so that users are better able to hold entities accountable for their heritage-related decisions, particularly those that support heritage preservation;

(b) Their heritage nature does not prevent heritage items being assets for financial reporting purposes;

(c) Many heritage items are assets and should be recognized in the statement of financial position when they meet the IPSAS 1, *Presentation of Financial Statements* recognition criteria of an asset;

(d) Since the heritage nature of an item is not, by itself, a reason for special financial reporting requirements, a separate heritage focused IPSAS is unnecessary; and

(e) Where heritage items are within the scope of another IPSAS, that Standard should apply (for example, IPSAS 31, *Intangible Assets* should be applied for heritage assets that are intangible in nature).

[2] The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's Comprehensive Subscription Service can view the Bases for Conclusions on the IASB's website at http://www.iasb.org.

Move List of Property, Plant, and Equipment to Application Guidance

BC14. The IPSASB noted that the list of different types of property, plant, and equipment included in the scope of IPSAS 17 was more in the nature of application guidance than that of principles to be included in core text. On this basis, the IPSASB had decided that the list and related descriptions should be moved to the application guidance.

Definition of Property, Plant, and Equipment

Definition of Property, Plant, and Equipment

BC15. The IPSASB had noted that the definition of property, plant, and equipment in IPSAS 17 referred to 'tangible items' instead of 'tangible assets' and that a strict application of this definition could lead to the recognition of an item that did not meet the definition of an asset in IPSAS 1 *or* the *Conceptual Framework*[3]. The lack of reference to 'asset' caused confusion in practice because there are instances when it is uncertain whether an item is a resource or it is controlled by the entity. To address the uncertainty, the IPSASB had decided to:

(a) Replaced the term "tangible items" with "'tangible assets," in the definition of property, plant, and equipment (see paragraph 5);

(b) Added authoritative guidance on resource and control (see paragraphs AG9 and AG10-AG11 respectively); and

(c) Added non-authoritative implementation guidance and illustrative examples on control (see paragraphs IG1-IG8 and IE1-IE5 respectively).

BC16. One of the responses received to ED 78 noted that paragraphs AG8-AG15 of ED 78 were a duplication of content found in the *Conceptual Framework* and suggested removing the content and instead, make a cross-reference to the *Conceptual Framework*. The IPSASB discussed that this authoritative guidance was added to ED 78 to ensure consistency of principle application, specifically to help an entity determine whether an item met all three criteria of the definition of an asset, but specifically two of the three criteria of an asset, resource and control. Rather than removing the guidance and adding a cross-reference to the *Conceptual Framework*, the IPSASB decided to keep guidance on the two key topics (i.e., whether a heritage item is a resource and assessment of control for both heritage and infrastructure items).

Characteristics of Heritage and Infrastructure Assets

BC17. The IPSASB had decided neither heritage nor infrastructure assets needed to be defined, because they were subsets of property, plant, and equipment and therefore, the principles in this Standard apply to heritage and infrastructure assets.

BC18. Based on responses to the Heritage CP and constituents' comments related to infrastructure, the IPSASB had concluded that ED 78 should include application guidance, including specific characteristics of heritage and infrastructure, to help entities identify their heritage assets (see paragraphs AG2-AG3) and infrastructure assets (see paragraphs AG4-AG6) from other property, plant, and equipment. The IPSASB had decided to only include characteristics that distinguished

[3] An asset is defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and IPSAS 1, *Presentation of Financial Statements* and contains three common components: resource(s), control and past event.

heritage and infrastructure assets from other property, plant, and equipment, and which presented complexities in the application and implementation of the principles in ED 78, as opposed to including an exhaustive list of the characteristics of heritage and infrastructure assets.

BC19. A few responses to ED 78 recommended the IPSASB to expand AG3(a) to reflect that heritage assets also have restrictions on their disposal, which present complexities in the application and implementation of ED 78 principles, specifically on the measurement of heritage assets. The IPSASB agreed that restrictions on the disposal of heritage assets, similarly to restrictions on their use, present complexities in the application and implementation of IPSAS 45 principles, although not a unique characteristic to heritage assets.

BC20. In developing IPSAS 45, the IPSASB decided to expand the characteristics for heritage assets and to retain the characteristics for infrastructure assets from ED 78 in IPSAS 45. Except as noted in BC19, responses to ED 78 on heritage and infrastructure assets characteristics did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

Recognition

Deemed Cost of Non-Exchange Transactions

BC21. When developing ED 78, the IPSASB decided to replace the terminology of ‘fair value’ on the initial measurement of a non-exchange transaction of an item or property, plant, and equipment with ‘deemed cost’. This was proposed for alignment with the initial measurement principles in IPSAS 46.

BC22. A response to ED 78 suggested a definition of deemed cost be included in IPSAS 45. The IPSASB discussed that deemed cost for assets acquired in a non-exchange transaction is fair value, in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).* The IPSASB noted that ED 78’s proposal added unintended complexity as it now required an entity to review IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* to understand which measurement basis to apply for deemed cost of a non-exchange transaction at recognition. However, the proposal was not intended to change the initial measurement of Plant, Property, and Equipment acquired in a non-exchange transaction.

BC23. Following the development of current operational value in IPSAS 46, the IPSASB discussed how to measure ‘deemed cost’ and concluded that fair value or current operational value are appropriate. The IPSASB further decided the guidance on deemed cost would be included in IPSAS 46.

Weapons Systems

BC24. When IPSAS 17 was revised as a result of Part III of *Improvements to IPSASs 2015,* the IPSASB had considered that Government Finance Statistics (GFS) reporting guidelines use the term “weapons systems” to comprise items that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. At that time, the IPSASB had concluded that replacing the IPSAS term “specialist military equipment” with the GFS term “weapons systems” and including a description would clarify the applicability of IPSAS 17 while increasing consistency with GFS reporting guidelines. In developing IPSAS 45, the IPSASB

concluded that the same principles should apply and continued to use the term “weapons systems” with a description (see paragraph AG7).

Heritage Assets: The Operational/Non-Operational Distinction

BC25. The IPSASB had considered whether only those heritage assets that are used for non-heritage purposes, called “operational” heritage assets, should be recognized. Operational heritage assets include, for example, a heritage bridge that functions as a bridge or a heritage railway station that is used as a railway station. Some national jurisdictions use the term “non-operational” to describe heritage assets that are used purely for heritage purposes. For example, museum collections held for public appreciation are non-operational heritage assets. Some constituents argued that non-operational heritage assets should not be recognized.

BC26. However, the IPSASB had concluded that both operational and non-operational heritage items can be assets, since both can meet the IPSAS 1’s definition of an asset (resource, control, past event). On this basis, the IPSASB had decided that the distinction is not relevant to a decision on whether or not to recognize a heritage item as an asset.

Spare Parts for Infrastructure Assets

BC27. The IPSASB considered whether ED 78 provided sufficient guidance on the accounting treatment of spare parts for infrastructure assets. The IPSASB had concluded that accounting for spare parts is a generic issue and that sufficient authoritative guidance existed in ED 78 for infrastructure asset spare parts that meet the definition of property, plant, and equipment, and in IPSAS 12, *Inventories* for spare parts that meet the definition of inventory.

Capitalization Thresholds

BC28. The IPSASB considered the issues identified by constituents with respect to establishing capitalization thresholds for costs related to infrastructure assets. The IPSASB had concluded that this issue applies broadly to property, plant, and equipment, and that any guidance should also apply broadly, and not be restricted to applying only to infrastructure assets.

BC29. The IPSASB had noted that this issue is generally considered to be a practical issue that is best addressed by management. Entities’ management consider their specific assets holdings, and apply the need to meet users’ information needs, materiality, and cost-benefit. However, the IPSASB concluded that there is scope for guidance on the factors for consideration when entities set their capitalization thresholds. On this basis, the IPSASB decided to add implementation guidance (see paragraphs IG10-IG14) on the factors to consider when establishing capitalization thresholds for property, plant, and equipment.

Disclosures Related to Unrecognized Heritage Property, Plant, and Equipment

BC30. When developing ED 78, the IPSASB had considered the issues identified by constituents with respect to disclosures related to unrecognized heritage assets. Being able to measure an asset in a way that achieves the qualitative characteristics and takes account of the constraints on information included in General Purpose Financial Statements (GPFSs) is necessary for recognition of an asset in the financial statements. ED 78 stated, in paragraph 6, that property, plant, and equipment must be measured reliably to be recognized. The IPSASB had agreed with constituents that heritage assets may present measurement difficulties which prevent their recognition, but that information on such assets could be important to meet users’ needs.

BC31. In considering the need for additional disclosures when heritage property, plant, and equipment is not recognized, the IPSASB had noted that, as explained in the *Conceptual Framework*, disclosures in the notes to the financial statements:

(a) Can provide information on elements that cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting;

(b) Are appropriate when knowledge of the item is relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting; and

(c) May include items that do not meet the recognition criteria but are important to an understanding of the entity's finances and ability to deliver services.

BC32. The IPSASB had noted that there were cases where the cost or current value of heritage property, plant, and equipment was not able to be measured reliably and therefore, the assets could not be recognized. Information about the contribution of such assets to the delivery of the entity's objectives would nonetheless be useful to users of the financial statements.

BC33. The IPSASB had decided to include a requirement for additional disclosures on heritage property, plant, and equipment that is not recognized because it cannot be measured reliably on the basis that such information contributes to:

(a) Achievement of the objectives of financial reporting; and

(b) Users' understanding of the entity's finances and ability to deliver services for accountability and decision-making purposes.

Therefore, ED 78 included paragraph 77, which established that additional disclosures were required, and application guidance for such disclosures was added in paragraphs AG37-AG38.

BC34. Responses to ED 78 requested for the disclosure requirement to be expanded to either infrastructure assets or to all property, plant, and equipment that is not recognized because it cannot be measured reliably. The IPSASB noted that measurement challenges, which prevent recognition of a tangible asset, were specific to heritage assets.

BC35. In developing IPSAS 45, the IPSASB decided to retain the ED 78 proposal in IPSAS 45 because the responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

BC36. The IPSASB considered constituents' views on additional guidance on decisions to capitalize or expense subsequent expenditure on unrecognized heritage assets. The IPSASB concluded that there is sufficient authoritative guidance addressing heritage-related concerns. The IPSASB's decision to not have a heritage scope exclusion in ED 78, resulted in the Standard's authoritative guidance fully applying to heritage assets. Therefore, heritage assets that satisfy the recognition criteria shall be recognized. Given measurement difficulties associated with heritage assets, however, the IPSASB acknowledged that some heritage assets may not be able to be recognized. The IPSASB decided that application guidance should be added (see paragraph AG20) to establish that paragraph 6's principles apply to the recognition of subsequent expenditure on unrecognized heritage assets. The IPSASB further decided to include additional implementation guidance (see paragraph IG9), which is needed to support decisions on when to capitalize or expense subsequent expenditure on unrecognized heritage property, plant, and equipment.

Measurement

Measurement of Heritage Assets

BC37. The IPSASB received requests for additional non-authoritative guidance for the recognition and measurement of heritage assets. The IPSASB decided to add implementation guidance, which walks an entity through the recognition criteria, in paragraph 6, and includes initial measurement considerations to help an entity in the recognition and measurement of heritage assets.

Initial Measurement

BC38. A response to ED 78 noted a cross reference to ED 77, *Measurement* on initial measurement stating an entity shall apply ED 77 when measuring an item of property, plant, and equipment. The respondent asked the IPSASB to clarify the scope of each standard and on the terminology differences for initial measurement between ED 78 and ED 77, ‘at cost’ and ‘at transaction price’ respectively.

BC39. The IPSASB discussed that terminology in IPSAS 45 was carried forward from IPSAS 17, to reflect continued alignment with IAS 16 terminology and that this core principle from IPSAS 17 remains unchanged. Additionally, the IPSASB noted that ED 78 contained specific initial measurement guidance (see paragraph 11) and guidance in ED 77 is generic, therefore not developed to replace existing detailed guidance in any specific IPSAS.

BC40. In developing IPSAS 45, the IPSASB decided to:

(a) Retain IPSAS 17 terminology ‘at cost’ for initial measurement;

(b) Remove the cross reference from IPSAS 45, *Property, Plant, and Equipment* to IPSAS 46 on initial measurement of property, plant, and equipment to remove the circularity between these standards; and

(c) Revise paragraph 5 in IPSAS 46 to reflect that when specific guidance on initial and subsequent measurement is included in an individual IPSAS, such guidance shall be applied.

Elements of Cost

Costs to Dismantle Infrastructure Assets

BC41. The IPSASB considered whether sufficient guidance existed for accounting for costs to dismantle infrastructure assets when there is a need to highlight the impact of the future environmental or decommissioning costs on the value of acquired property, plant, and equipment, including infrastructure assets.

BC42. The IPSASB decided that this issue was not specific to infrastructure assets, and no additional guidance was necessary, because sufficient authoritative guidance existed in:

(a) ED 78 that stated that the cost of an item of property, plant, and equipment included the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and

(b) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* that requires a public sector entity to recognize a provision for decommissioning costs to the extent that the public sector entity is obliged to rectify damage already caused.

Subsequent Measurement

Accounting Policy Choice

BC43. The IPSASB considered whether additional guidance was necessary to assist in making the accounting policy choice of subsequently measuring classes of property, plant, and equipment either on a historical cost or current value model.

BC44. The IPSASB concluded no additional guidance was needed. Management should continue to apply its judgment in choosing an accounting policy that results in information that:

(a) Is relevant to the accountability and decision-making needs of users;

(b) Faithfully represents the financial position, financial performance, and cash flows of the entity;

(c) Meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability; and

(d) Considers the constraints on information included in GPFSs and the balance between the qualitative characteristics.

Current Value Model

Measurement Bases

BC45. During the development of IPSAS 46, the IPSASB had considered concerns raised by respondents with regard to the application of fair value in the public sector. While respondents agreed fair value was applicable in some circumstances, they raised concerns about its applicability to public sector assets held for their operational capacity. Respondents suggested it was inappropriate to apply fair value to those assets because the following concepts are not applicable:

(a) Highest and best use; and

(b) Maximizing the use of market participant data.

BC46. The IPSASB had decided to address respondents' concerns by developing a public sector specific measurement basis – Current Operational Value. This measurement basis addressed the measurement of assets held for their operational capacity.

BC47. When developing ED 78, the IPSASB had proposed that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value.

BC48. Some responses to ED 78 raised concerns about basing the measurement basis on management's intent, particularly as it will reduce the comparability of financial statements and reduce consistency of principle application. These respondents were of the view that the selection between measurement bases should be driven by facts and circumstances, such as the reason why the asset is held, and that a change between measurement bases is only appropriate when there is a change in the primary objective for which the entity holds the asset.

BC49. Other responses to ED 78 requested additional non-authoritative guidance on when a change between current value measurement bases was appropriate and how to make the selection between measurement bases, as it may be difficult to determine whether an asset is held for operational or financial capacity (for example, a mixed-use office building) if the measurement bases are applied to an entire class of property, plant, and equipment.

BC50. The IPSASB acknowledged that current operational value was developed to address a public sector specific need for a measurement basis that was more representative of the current value of assets held for their operational capacity in the public sector. The IPSASB further discussed, as noted in BC45(a) and BC45(b), that it was inappropriate to apply fair value concepts of 'highest and best use' and 'maximizing the use of market participant data' for assets held for their operational capacity.

BC51. The IPSASB agreed that it would seem contradictory for the decision of measurement basis in the current value model to be a free choice, considering the guidance included in paragraph 29 and AG26-AG27 of ED 78 and the reason behind the development of current operational value as a measurement basis for public sector assets held for their operational capacity.

BC52. The IPSASB also discussed whether the measurement bases should be applied to an entire class of property, plant, and equipment or whether it should be applied at the item or part of an item of property, plant, and equipment level, taking into consideration mixed-use assets (BC49). Additionally, the IPSASB considered whether a cross reference from IPSAS 45 to IPSAS 46 was needed to help entities on the selection of current value measurement bases.

BC53. The IPSASB concluded that

(a) An item or part of an item of property, plant, and equipment held for its operational capacity shall be measured at its current operational value, and when it is held for its financial capacity, it shall be measured at fair value (see paragraph 27);

(b) Deemed cost could be measured using either current operational value or fair value;

(c) While measurement models are to be applied to an entire class of property, plant, and equipment, the measurement bases are to be applied to an item or part of an item of property, plant, and equipment (see paragraphs 27-28, AG20-AG23 and IG15);

(d) To include additional implementation guidance on when a change between current value measurement bases is appropriate (see paragraphs IG16-IG17); and

(e) A cross reference from IPSAS 45 to IPSAS 46 is not necessary because application guidance on whether property, plant, and equipment is held for operational or financial capacity is included in this Standard (see paragraphs AG20-AG23).

Current Value Measurement of Heritage Assets

BC54. The IPSASB considered constituents' views on the need for guidance on application of the current value model to heritage assets. The IPSASB decided that additional implementation guidance is needed on measurement at current value when heritage assets are viewed as irreplaceable, and have restrictions on their use to ensure consistent application and implementation of this Standard's principles (see paragraphs IG19-IG22).

Valuing Land Under or Over Infrastructure Assets

BC55. The IPSASB considered whether existing guidance in IPSAS 17 addressed the approach to valuing land under or over infrastructure assets such as land under roads and railways.

BC56. The IPSASB decided to add non-authoritative implementation guidance to this Standard to clarify the existing principles related to the valuation of land under or over infrastructure assets (see paragraphs IG23-IG25).

Depreciation

Finite and Indefinite Useful Lives

BC57. When developing this Standard, the IPSASB noted that generally, land has an indefinite useful life and therefore, is not depreciated. Exceptions, where land should be depreciated include:

(a) Land is being consumed due to depletion (such as mines and quarries or landfill sites); or

(b) Land is being lost or displaced as a result of natural phenomena such as climate change (for example, rock or soil erosion, or desertification).

BC58. The IPSASB decided that the IPSAS 17 discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated (see paragraphs 52-55). During its consideration of this issue and those raised by heritage assets' useful lives, the IPSASB decided that the terminology of finite and indefinite useful lives, as used in IPSAS 31, should be used in ED 78. This provided consistent terminology across IPSAS when considering useful lives for asset depreciation.

BC59. The IPSASB further decided that the revised core text and related application guidance should also provide guidance to address situations where items of property, plant, and equipment (e.g., heritage assets, discussed further below) could have indefinite useful lives and therefore, should not be depreciated.

BC60. The IPSASB considered that most non-land property, plant, and equipment have finite useful lives. On this basis, the IPSASB decided to include a rebuttable presumption that non-land property, plant, and equipment has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land property, plant, and equipment as having an indefinite useful life (see paragraph 52).

Depreciation of Heritage Assets

BC61. When developing ED 78, the IPSASB had concluded based on responses to the CP, *Financial Reporting for Heritage in the Public Sector*, that the same depreciation requirements applied to other types of property, plant, and equipment shall apply to heritage assets. Where respondents disagreed with that approach, some argued against depreciation, while others stated that guidance was needed on how to estimate heritage assets' useful lives and identify heritage assets for which there is no depreciation expense. On the basis that many heritage assets were consumed over time, as they delivered services and/or economic benefits, the IPSASB had concluded that heritage assets can be depreciable assets.

BC62. However, the IPSASB had further concluded that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they were held. On this basis, the IPSASB had decided that useful lives should be clarified to apply to situations where property, plant, and equipment have indefinite useful lives.

BC63. To support entities' assessments of whether a heritage asset has a finite or indefinite useful life, the IPSASB had decided to add non-authoritative implementation guidance (see paragraphs IG30-IG33).

Identifying Parts of Infrastructure Assets that Should Be Separately Depreciated

BC64. The IPSASB considered whether it was a challenge to determine the appropriate unit of account when identifying significant parts of infrastructure assets that should be separately depreciated.

BC65. The IPSASB noted the existing principles are clear that an asset could have different units of account for depreciation because parts of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately. This principle holds true for infrastructure assets, but judgment needs to be exercised in determining or identifying the units of account, which may be separate assets in their own right (see paragraph 8).

BC66. The IPSASB decided to revise the example in paragraph AG6 which listed a number of assets (such as curbs and channels, pavements and bridges) that make up the road system as the units of account or parts that should be identified for separate recognition and depreciation to illustrate the principle of depreciating separately the parts of items of property, plant, and equipment at the appropriate level.

BC67. The IPSASB acknowledged that the separate units of account described in the example may be relevant in some jurisdictions but considered that jurisdictions will apply judgment in determining the appropriate units of accounts for their circumstances.

BC68. The IPSASB decided to add implementation guidance (see paragraphs IG34-IG38).

Annual Impairment Tests for Property, Plant, and Equipment with Indefinite Useful Lives

BC69. The IPSASB had decided that where an entity has assessed property, plant, and equipment as having indefinite useful lives it is important that the assets be reviewed regularly for indicators of impairment. On this basis the IPSASB decided to insert a requirement for annual reviews for indicators of impairment applied to such assets into ED 78 (see paragraph 56.

Separately Accounting for Land and Infrastructure Assets

BC70. The IPSASB considered the issue of whether land and infrastructure assets are separate assets that should be separately accounted for.

BC71. The IPSASB decided that no additional authoritative guidance should be included in ED 78 because the guidance is clear that:

(a) Land and buildings are separable assets and are accounted for separately (e.g., separate recognition and measurement) even when they are acquired together (see paragraph 50); and

(b) Land, buildings, roads and electricity transmission networks are examples of separate classes of property, plant, and equipment that should be separately disclosed (see paragraphs 34 and 69).

Renewals Accounting

BC72. The IPSASB considered whether “renewals accounting” was an appropriate technique to estimate depreciation of property, plant, and equipment when these are managed in accordance with a detailed asset management plan.

BC73. The IPSASB concluded there is no definitive “renewals accounting” method and that this technique should not be used in its literature to estimate depreciation of property, plant, and equipment given the numerous interpretations across different jurisdictions.

Use of Information in Asset Management Plans for Financial Reporting

BC74. When developing this Standard, the IPSASB had noted that many public sector entities have asset management plans that facilitate the proper management of an item of property, plant, and equipment over its life cycle. These asset management plans are usually developed by qualified experts and focus on the operational aspects of the item of property, plant, and equipment.

BC75. The IPSASB noted that, where these asset management plans are kept up to date by qualified experts and the information is reliable, these plans could provide detailed information relevant for accounting for property, plant, and equipment.

BC76. The IPSASB decided to add implementation guidance to clarify when asset management plans might provide information useful for financial reporting purposes when accounting for property, plant, and equipment (see paragraphs IG39-IG40).

Impairment

Liabilities for Future Preservation/Maintenance of Heritage and Infrastructure Assets

BC77. When developing this Standard, the IPSASB considered whether an entity’s intention to preserve and/or maintain heritage and infrastructure assets could give rise to liabilities. For a liability to exist the entity must have an unavoidable present obligation (i.e. little or no realistic alternative to avoid) to incur future expenditure to an external party.

BC78. While acknowledging that entities who hold heritage and infrastructure assets often intend to preserve and/or maintain them and there may be expectations on the entity to do so, the IPSASB concluded that neither intentions nor expectations are sufficient to establish a present obligation

BC79. The IPSASB concluded no liability arises from the entity’s plan and/or intention to preserve and/or maintain heritage and infrastructure assets, unless there were arrangements in place that create an obligation to an external party for the entity.

Impairment of Heritage and Infrastructure Assets

BC80. The IPSASB considered if sufficient guidance existed on whether an infrastructure asset is impaired when one part of the network or system becomes damaged or inoperable. The IPSASB also considered whether additional guidance is needed to address the impairment of heritage assets.

BC81. The IPSASB decided no additional guidance is necessary because sufficient authoritative impairment guidance exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, to adequately address the impairment of both heritage and infrastructure assets, including guidance for entities to determine when a part of the network or system was impaired.

Under-Maintenance of Assets

BC82. The IPSASB considered the issue that guidance did not articulate whether “backlog maintenance” or “deferred maintenance” should be recognized in the financial statements.

BC83. The IPSASB had decided not to use the terms, “backlog maintenance” or “deferred maintenance” because the terms have several interpretations and applications across different jurisdictions. The IPSASB clarified that the issue highlighted by constituents related to the “under-maintenance of assets”.

BC84. Even though IPSAS 17 principles are clear on the accounting for assets that are “under-maintained”, the IPSASB decided to add implementation guidance to clarify the accounting for “under-maintenance of assets” in ED 78 (see paragraphs IG41-IG44).

Recoverable Amount

BC85. IAS 16 defines recoverable amount as “the higher of an asset’s fair value less costs of disposal and its value in use.” IPSAS 17 refers to the IPSAS 26 definition of recoverable amount which is defined as “the higher of an asset’s or cash generating unit’s fair value less costs to sell and its value in use.” The definition in IPSAS 17 is the same as in IPSAS 26 but differs slightly from the definition in IAS 16. In developing IPSAS 45*,* the IPSASB noted that this departure from IAS 16 on the definition of recoverable amount is still applicable in IPSAS 45.

Derecognition

Derecognition of Infrastructure Assets

BC86. When developing this Standard, the IPSASB had considered whether sufficient derecognition guidance with respect to accounting for infrastructure assets existed. The IPSASB had noted the derecognition issue arised because parts of infrastructure assets were constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.

BC87. The IPSASB decided not to add additional derecognition guidance in this Standard because sufficient authoritative derecognition guidance exists and the challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appeared administrative and related to record keeping.

Presentation—Display and Disclosure

Heritage: Focus on Information in the Financial Statements

BC88. When developing this Standard, the IPSASB noted that some jurisdictions disclosed supplementary information about heritage assets as a substitute for recognizing heritage assets in the financial statements. Supplementary disclosures may include qualitative information that is not commonly included in the financial statements. This type of information could be useful for broader accountability purposes such as reporting on an entity’s heritage-related service performance.

BC89. The IPSASB concluded that it would focus on guidance related to the financial statements on the basis that the *Recommended Practice Guidelines* (RPGs) provides sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements. The RPGs allow entities to align heritage-related supplementary information to the specific information needs arising from their heritage holdings, heritage-related objectives, and national or local context.

Transitional Provision

BC90. When developing ED 78, the IPSASB had decided that IPSAS 45 shall be applied retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except that an entity may elect to measure heritage assets at current value when reliable cost information for these assets was not available. In developing IPSAS 45, the IPSASB acknowledged that an additional transitional provision was needed for the initial application of IPSAS 45 current value measurement bases. The IPSASB decided to include additional authoritative guidance reflecting that rather than restating comparative periods, an entity shall recognize the effect of initially applying current operational value and fair value basis in the current value model as an adjustment to the opening accumulated surplus or deficit at the date of initial application of IPSAS 45 (see paragraph 87(b)).

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

IG1. **Assessing Control:** An entity controls a resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. Paragraph AG10 identifies the indicators of control as follows:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the resource is used to achieve its objectives; or

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

IG2. **Control over tangible items**: This implementation guidance focuses on control over items of property, plant, and equipment, where the resource is represented by a tangible item. Intangible assets arising from a loan, lease or other type of "right to use" are not addressed in this implementation guidance because they are outside of IPSAS 45's scope.

IG3. **Apply judgment**: The entity applies judgment to the facts of each situation when:

(a) Assessing the existence of indicators of control; and

(b) Reaching a view on whether or not control exists.

Control of Land Under or Over Property, Plant, and Equipment

Property, plant, and equipment can be built on land that is fundamental to the operation of the item but is owned by another entity. For example, State or Municipal Governments may construct road networks on land that is owned by another level of government. Should the entity that controls the property, plant, and equipment also recognize the land?

IG4. Where an item of property, plant, and equipment is built on land owned by another level of government, legal ownership of that land will not be held by the entity constructing the property, plant, and equipment. However, legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it.

IG5. When assessing whether land, owned by another level of government, under an item of property, plant, and equipment is controlled by the entity, the entity considers the rights it has to continue to operate the item of property, plant, and equipment. If the ongoing operation of the item of property, plant, and equipment is dependent on the other level of government continuing to grant the entity access to the land, it is unlikely the entity controls the land.

Control over Items in a Heritage Collection

Does an entity have control over items in its heritage collection, when it only has the right to hold the items temporarily, for a defined period under an agreement (or agreements) with another entity (or entities) or individual (group of individuals)?

IG6. No. The entity does not have control over these items in its heritage collection. Applying the application guidance in IPSAS 45 and judgment to the facts of the situation the entity does not have control over the resource represented by the items. This is indicated by the entity only holding the item temporarily, for a defined period. The entity does not have the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives. However, another Standard could apply, for example one that addresses leases or similar arrangements, which includes intangible rights to use a tangible resource within its scope.

Does an entity have control over items in its heritage collection, when it does not have legal ownership but has the right to hold the items for an indefinite period through an arrangement that both parties to the agreement understand to be open-ended?

IG7. Yes. The entity has control over these items in its heritage collection. This is because it has the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?

IG8. Yes. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items. This is because it has the ability to use the items or direct other parties about their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Recognition

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

Should an entity capitalize subsequent expenditure on an unrecognized heritage asset when the expenditure meets IPSAS 45's recognition principle?

IG9. Yes. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset where that expenditure meets IPSAS 45 recognition principle in paragraph 6.

Capitalization Threshold for Costs

What factors should be considered when choosing a capitalization threshold?

IG10. IPSAS 45 paragraph 6 establishes the recognition principle for determining whether costs should be recognized as an asset, i.e., "capitalized" and states that the cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or current value of the item can be measured reliably.

IG11. In practice, entities expense some costs that meet this recognition principle, because they fall below a “capitalization threshold,” established by management. Capitalization thresholds assume application of the materiality principle. As such, not all property, plant, and equipment with useful lives extending beyond a single reporting period will be capitalized. Many can be expensed without having a material impact on the information reported in the financial statements. Capitalization thresholds guide entities on whether costs should be capitalized and included in the statement of financial position or expensed and included in the statement of financial performance.

IG12. Factors to consider when setting capitalization thresholds include:

(a) **Meeting the information needs of users**: Capitalization thresholds should result in reported information that meets the needs of external users of the financial statements. Capitalization thresholds should result in reported amounts for recognized assets that achieve the qualitative characteristics, including relevance and representational faithfulness.

(b) **Materiality**: Capitalization thresholds should be such as to ensure that material asset values are captured. Appropriate capitalization thresholds guide entities to capitalize items that would materially impact the information about assets and expenses in the financial statements, and expense those items that would not materially impact that information.

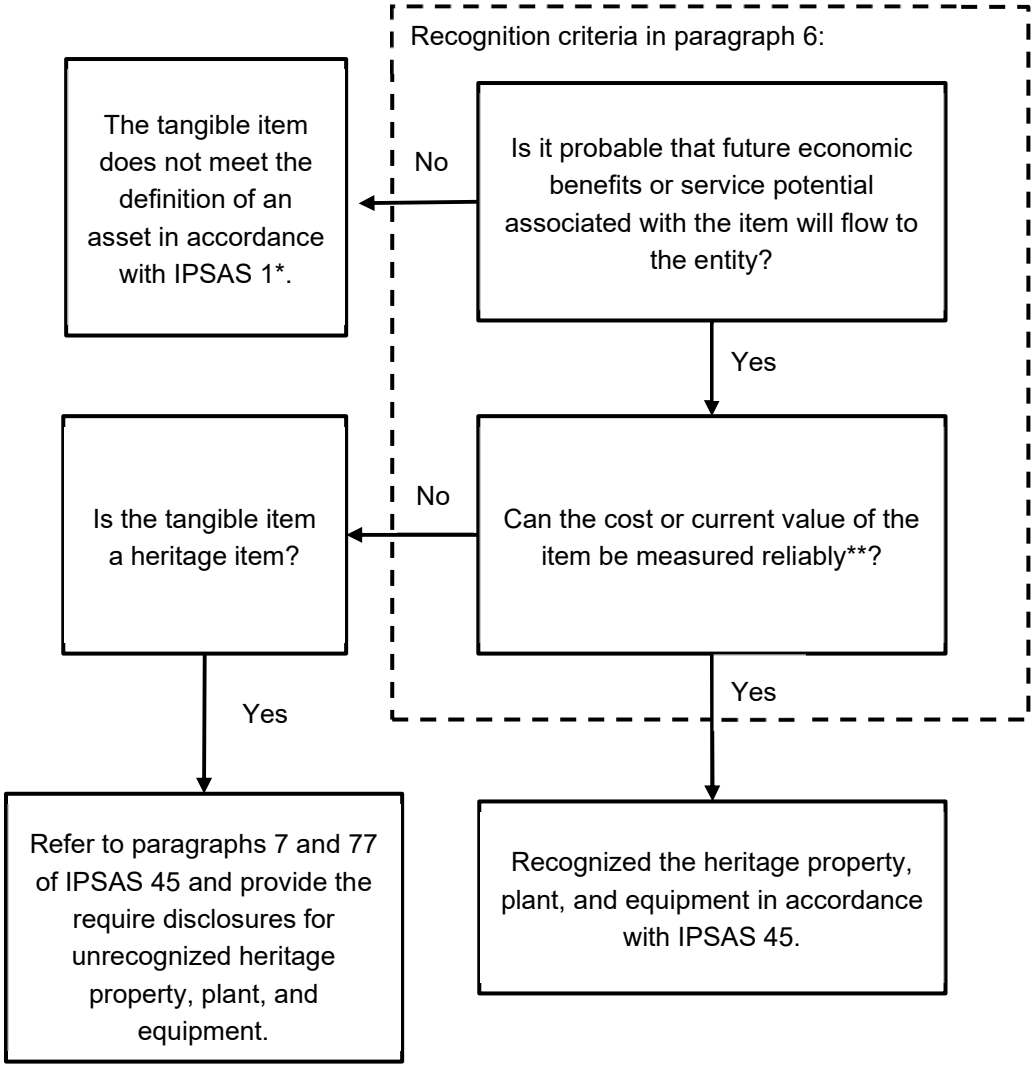
(c) **Cost-benefit**: When capitalization thresholds are set at appropriate levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting users’ needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff – without any benefit.

IG13. An entity should consider whether different classes of property, plant, and equipment need different capitalization thresholds.

IG14. Capitalization thresholds are often applied to individual items rather than to groups of similar items. However, the cumulative effect on a group of similar assets should be considered when relevant. This may be the case when a group of assets are acquired at the same time as part of a single project, for example assets acquired for an extensive building program.

Decision Tree – Heritage Item

This decision tree accompanies, but is not part of, IPSAS 45.



* **Assets** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

**** Measurement Considerations:**

- Cost as described in paragraphs 14-19.
- Current value:
  - Current operational value: The amount the entity would pay for the remaining service potential of an asset at the measurement date.
  - Fair value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.
- Reliable information: Information that 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.

Subsequent Measurement

Current Value Model

Measurement Bases

Can a class of property, plant, and equipment measured using the current value model mix current operational value and fair value measurement bases?

IG15. Yes. The measurement model, i.e., historical cost model or current value model, must be applied consistently to an entire class of property, plant, and equipment. As long as the measurement model is applied to an entire class of property, plant, and equipment, different measurement bases can be applied within the class. This may occur when a class of property, plant, and equipment is measured using the current value model. Individual items within this class of property, plant, and equipment may be measured at current operational value or fair value depending on the primary objective for which an entity holds an item, or part of an item, of property, plant, and equipment. (See paragraph 27).

Is a change in current value measurement basis, from current operational value to fair value, considered a change in accounting policy in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*?

IG16. No. The current value measurement basis may change because of a change in the objective for which an entity holds an item or part of an item of property, plant, and equipment.

IG17. For example, a public hospital has ten wards, nine of which have been used for fee-paying patients on a commercial basis, while the tenth ward was used for non-fee-paying patients, The entity decides to repurpose the tenth ward to fee-paying patients on a commercial basis, changing the objective for which the entity holds the tenth ward from operational capacity to financial capacity. As a result, the entity starts measuring the tenth ward at fair value.

Current Value Measurement of Heritage Assets

Do restrictions on the use of heritage assets affect an entity's ability to derive its current value either on initial recognition (if, for example, the asset is donated), or subsequently (when the entity subsequently revalues its heritage assets)?

IG18. No. Restrictions on the use of heritage assets do not affect an entity's ability to derive current values for them. However, restrictions will need to be taken into account when deriving a current value.

Where a heritage asset is viewed as irreplaceable, does this affect an entity's ability to derive its current value?

IG19. No. A view that a heritage asset is irreplaceable does not affect an entity's ability to derive a current value.

IG20. Many heritage assets are viewed as irreplaceable from a heritage perspective. From a financial reporting perspective, the ability to derive a current value involves the ability to ascertain values for equivalent assets. "Equivalent assets" do not have to be identical assets when deriving a current value. Where an entity needs to estimate a current value for a heritage asset, it will need to consider information available on current values, even when, from the perspective of its heritage nature, the asset is irreplaceable. Obtaining current values for heritage assets may be complex and difficult. It could involve judgment to reach an estimate that is derived from a range of possible values. These measurement challenges are a normal part of financial reporting, and not unique to the valuation

of heritage assets. The need for professional judgment, expert valuation advice, and/or the use of estimates to derive a current value is not a sufficient basis for concluding that a current value cannot be derived.

IG21. A consideration of the following factors will support an entity's assessment of whether it can derive a current value for a heritage asset:

(a) Replacement of service potential: A current value is likely to be derivable, if the service potential of the heritage asset could be replaced, if necessary, through either:

i. Purchasing a similar asset; or,

ii. Reproducing or reconstructing the asset, with reproduction applying to either the whole asset or parts of the asset on either an "as needed" basis or through application of a replacement cycle for the asset.

(b) By contrast, the heritage asset's current value may not be derivable if its service potential cannot be replaced through purchasing another, similar asset or through reproduction.

IG22. Significance of the heritage asset: A current value is likely to be derivable, if the heritage asset's service potential mainly relates to its ability to represent an era or type, such that another heritage asset of the same era or same type could be similarly representative.

By contrast, a heritage asset's current value may not be derivable if its service potential is independent of the heritage asset's ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.

Valuing Land Under or Over Infrastructure Assets

How should the land under or over infrastructure assets, such as land under roads or railways, be valued because the related infrastructure assets on top of the land are specialized and held for operational capacity?

IG23. IPSAS 45 is clear that:

(a) Land should be separately accounted for. This requirement applies to all land, including land under or over infrastructure assets; and

(b) Land under or over infrastructure assets accounted for under the current value model should be valued at current operational value or fair value. Because the infrastructure asset itself is a specialized asset, it will often be the case that the market approach will be challenging to apply, and that the asset will be more easily valued using the cost approach.

IG24. IPSAS 46, *Measurement* defines the cost approach as a measurement technique that reflects the amount that will be required currently to replace the service capacity of an asset (often referred to as the current replacement cost).

IG25. The replacement cost of the land is based on the current value of the land based on the existing site. For example, if the road runs through agricultural land, then the current value of the land under that section of the road will be agricultural and if the road runs through an industrial area, then the current value placed on the land under that section of the road will be industrial.

Frequency of Revaluation of Property, Plant, and Equipment

How often should property, plant, and equipment be revalued?

IG26. Paragraph 30 of IPSAS 45 specifies that the frequency of revaluations depends upon the changes in current value of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that choose the current value model to determine whether carrying amounts differ materially from the current value as at reporting date.

IG27. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's current value and revalues the asset to that amount.

IG28. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

(a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;

(b) Where a market exists for the assets of the entity, whether market values are different from their carrying amounts;

(c) During the period, whether a price index relevant to the asset has undergone a material change;

Internal sources of information

(d) Evidence is available of obsolescence or physical damage of an asset;

(e) Significant changes, adverse or favorable, affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favorable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and

(f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

IG29. The list in paragraph IG28 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current value as at the reporting date.

Depreciation

Heritage Assets' Useful Lives

What are the main factors to consider when assessing whether a heritage asset has an indefinite useful life?

IG30. Paragraph 52 states that there is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. For a heritage asset to have an indefinite useful life, an analysis of the relevant factors should show that it is reasonable for the entity to consider that there is no foreseeable limit to the period over which it is expected to provide service potential or be used operationally to generate net cash inflows for the entity. Paragraph 54 states that estimates of useful life, at the time the estimate is made, should reflect projections of the relevant factors that are realistic, rather than optimistic or pessimistic.

IG31. Paragraph AG28 states that a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset is an example of an asset that could have an indefinite useful life.

IG32. The main factors to consider when assessing whether a heritage asset has an indefinite useful life are:

(a) **Period providing service potential**: The entity should expect that, to the best of its knowledge, the period over which the heritage asset will continue to provide service potential and/or future economic benefits will continue indefinitely. The assets' heritage value for future generations should be demonstrable, such that it is reasonable to expect that its heritage value will continue indefinitely.

(b) **Usage**: The usage of the heritage asset should not result in physical wear and tear to the heritage asset.

(c) **Preservation**: The entity should be able to describe the actions it has taken in the past and plans to continue to take to preserve the heritage asset, including adequate protection of heritage assets from the natural elements, where relevant. Preservation plans should include information on the likely availability of staff and financial resources to carry out the entity's preservation activities.

IG33. Entities apply judgment to estimate the useful life of an asset with reference to experience with similar assets. If circumstances change, the entity will need to consider whether the heritage asset still has an indefinite useful life. If the heritage asset is found to have a finite useful life, the entity will then treat it as a depreciable asset and account for it accordingly.

Identifying Parts of Infrastructure Assets that Should be Separately Depreciated

What should be considered when identifying parts of infrastructure asset networks or systems for financial reporting purposes?

IG34. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part that will have a material impact or effect on determining the annual depreciation expense.

IG35. Property, plant, and equipment including infrastructure assets do not require separate recognition beyond the level required for financial reporting purposes. IPSAS 45 requires:

(a) Items with a cost or value that is significant in relation to the total cost of the item shall be depreciated separately; and

(b) Significant parts of property, plant, and equipment to be grouped with other significant parts that have a similar useful life and / or depreciation method when determining the depreciation charge.

IG36. One of the characteristics of infrastructure assets is that they are networks or systems comprised by a number of assets. Each of those assets or groups of similar assets may be a separate unit of account and may have parts.

IG37. Judgment is required in determining whether those parts of the assets or similar group of assets that make up the infrastructure asset networks or systems are significant in relation to the whole infrastructure asset network or system when determining whether or not to treat them separately. For financial reporting purposes, the following indicators can be helpful in identifying significant parts of an item of property, plant, and equipment:

(a) Parts should be separately identifiable and measurable;

(b) Parts should have significant value in relation to the asset; and

(c) Parts should have different estimated useful lives.

IG38. The entity must consider the facts and circumstances of the transaction as a whole, and materiality to determine the significant parts for the purposes of calculating depreciation.

Use of Information in the Asset Management Plans for Financial Reporting

Can asset management plans provide information useful for accounting for property, plant, and equipment?

IG39. Yes. Information in asset management plans may be used to account for property, plant, and equipment when the items of property, plant, and equipment are maintained in accordance with a sufficiently detailed asset management plan that is subject to effective internal controls and has reliable and up to date information.

IG40. Information from asset management plans can be a useful source of input to:

(a) Calculate depreciation. Paragraphs 47, 57, AG33 and AG35 indicate that depreciation reflects the consumption of the asset's future economic benefits or service potential by allocating the depreciable amount using a systematic basis over its useful life. Asset management plans may contain information on:

(i) The asset's expected useful life - Asset management plans may include information about the expected useful life based on its design/function/expected use; and

(ii) Expected patterns of asset consumption - Asset management plans may include information about the condition and maintenance history;

(b) Determine the significant parts of property, plant, and equipment. Paragraphs 41 and AG24 stipulate that an entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part. Asset management plans may include information useful to determine or identify these significant parts of property, plant, and equipment which could in turn be useful to calculate depreciation, impairment, and/or facilitate derecognition of items of property, plant, and equipment;

(c) Calculate the estimated costs to maintain, restore and refurbish assets; and

(d) Determine whether there is an indication that property, plant, and equipment may be impaired. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

Impairment

Under-Maintenance of Assets

What is under-maintenance of assets?

IG41. Under-maintenance of assets occurs when the level of maintenance of an asset is insufficient to maintain the service potential or the useful life of the asset.

Could under-maintenance impact the measurement of items of property, plant, and equipment that require constant maintenance such as infrastructure assets?

IG42. Yes. Under-maintenance may affect the measurement of property, plant, and equipment. It may be an indicator for impairment and may also impact the residual value and useful life of the property, plant, and equipment.

IG43. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21 or IPSAS 26. The relevant guidance for assessing the residual value and useful life of property, plant, and equipment is available in paragraphs 48 and 49 of this Standard.

IG44. No liability should be recognized when property, plant, and equipment are not adequately maintained because IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* is clear there is no present obligation to recognize maintenance expenses that will be incurred in the future.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

Control of Land under or over Property, Plant, and Equipment

Example 1-Case A (see paragraphs IE1-IE3) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has legal ownership of the land and the right to direct access to the land and to restrict or deny access of others to the land.

IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200-mile road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.

IE2. The Provincial Government concludes that the National Government controls the land because the National Government:

(a) Legally owns the land;

(b) Retains all the rights to the land, as it can cancel the binding arrangement at any point in time; and

(c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.

IE3. While the Province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the National Government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this is insufficient to support its control of the land. Other indicators support control being retained by the National Government.

Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has unlimited and unrestricted use of the land.

IE4. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.

IE5. Even though the Provincial Government does not legally own the land, the Provincial Government concludes it controls the land because it:

(a) Has the right to direct access to the land and to restrict or deny access of others to land because it has unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;

(b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and

(c) Ensures the land is used to achieve the Provincial Government's service potential objective whereby the land will allow the Provincial Government to build a road that will transport vehicles and goods between the two cities.

Disclosures

Example 2 (see paragraph IE6) illustrates the general disclosure principles in paragraph 69-76.

IE6. The Department of the Interior is a public sector entity that controls a wide range of property, plant, and equipment, and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. Land

(a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.

(b) Restrictions on Titles:

Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at 25,000 currency units) of the national interest land and a further two thousand hectares (carried at 250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided; the Department recognizes the jurisdiction of the Court to hear these cases.

2. Buildings

(a) Buildings consist of office buildings and industrial facilities at various locations.

(b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.

(c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.

(d) The Department has entered into five contracts for the construction of new buildings; total contract costs are 250,000 currency units.

3. Machinery

(a) Machinery is measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the machine.

(c) The machinery has various useful lives:

Tractors: 10 years

Washing Equipment: 4 years

Cranes: 15 years

(d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings – the contracted cost is 100,000 currency units.

4. Furniture and Fixtures

(a) Furniture and fixtures are measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.

(c) All items within this class have a useful life of five years.

Reconciliations **(in ‘000 of currency units)**								
	Land		**Buildings**		**Machinery**		**Furniture and Fixtures**	
Reporting Period	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	–	–	250	100	120	200	20	100
Disposals	–	–	150	40	60	80	20	–
Depreciation (As per Statement of Financial Performance)	–	–	160	180	145	135	50	50
Revaluations (net)	250	225	–30	–50	–	–	–	–
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200
Sum of Revaluation Surpluses (Paragraph 74(d))	750	500	250	250	–	–	–	–
Sum of Revaluation Deficits (Paragraph 74(e))	25	25	380	350	–	–	–	–
Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	–	–	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Comparison with IAS 16

IPSAS 45, *Property, Plant, and Equipment* is drawn primarily from IAS 16 (issued in December 2003, including amendments up to March 2018), *Property, Plant and Equipment*. The main differences between IPSAS 45 and IAS 16 are as follows:

- IPSAS 45 refers to both “economic benefits” and “service potential”, where appropriate, in the section on recognition of an item of property, plant, and equipment, while IAS 16 refers to “economic benefits”.
- IPSAS 45 at initial measurement requires that an item of property, plant, and equipment acquired through a non-exchange transaction be measured at its deemed cost. IAS 16 does not have such a requirement.
- The subsequent measurement models in IPSAS 45 are historical cost and current value models, while in IAS 16 the models are cost and revaluation.
- IPSAS 45 for subsequent measurement has two measurement bases in the current value model - current operational value and fair value. IAS 16 revaluation model has only one measurement basis - fair value.
- Under IPSAS 45 revaluation increases and decreases are offset within a class of assets basis, while in IAS 16 are offset on an asset basis.
- IPSAS 45 has disclosure requirements for unrecognized heritage assets, while IAS 16 does not have such a requirement.
- IPSAS 45 does not require the disclosure of the equivalent historical cost amounts, where an entity adopts the current value model and carries items of property, plant, and equipment at revalued amounts, while IAS 16 does.
- IPSAS 45 requires the disclosure of the sum of all revaluations, surpluses and deficits for individual items of property, plant, and equipment within that class. IAS 16 does not have such a disclosure requirement.

Comparison with GFS

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 45 and GFS will depend on the facts and circumstances of the items of property, plant, and equipment.
- Both IPSAS 45 and GFS require an entity to recognize property, plant, and equipment. However, IPSAS 45 uses accounting terminology whereas GFS uses economic terminology, which may have a similar meaning.
- On initial recognition, IPSAS 45 requires measurement at cost or deemed cost where appropriate. As GFS requires the use of market prices, the same valuation can result.
- On subsequent measurement, IPSAS 45 allows historical cost, current operational value, or fair value measurement bases. In GFS, assets should be measured at market values, so the same valuation can result if the market approach is used as the measurement technique.
- In IPSAS 45 current value model increases or decreases in the carrying amount are recognized in net assets/equity or surplus or deficit, as appropriate. In GFS, changes in market value are recognized as other economic flows.
- Both IPSAS 45 and GFS require capitalization of transaction costs. Transaction costs in IPSAS 45 and GFS are presented together with the items of property, plant, and equipment, though ownership transfer costs of land in GFS are presented in land improvements.
- In IPSAS 45, depreciation can be based on historical cost or on current value, whereas consumption of fixed capital in GFS is always based on current value.
- IPSAS 45 includes disclosure requirements that are not present in GFS.

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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®).

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

In meeting this objective, the IPSASB 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,

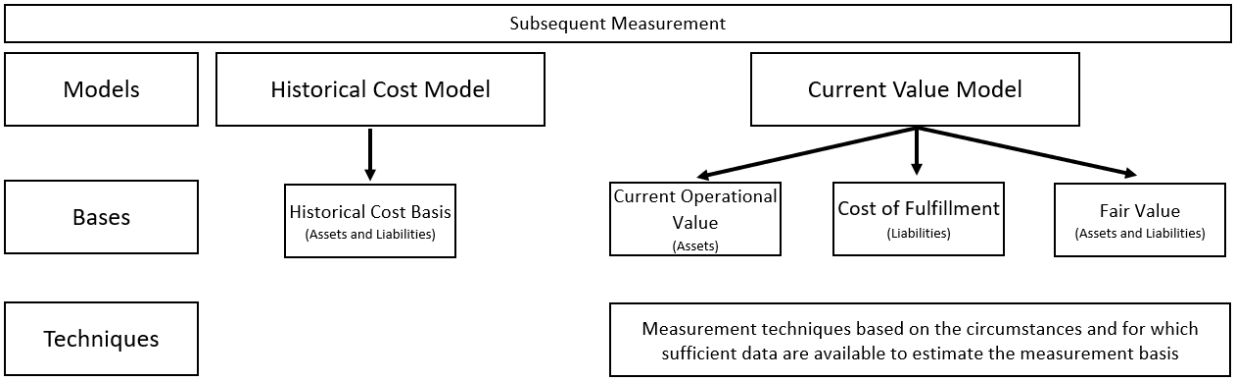
7.7 For both assets and liabilities, where there are no transaction price data available or if the transaction price does not faithfully present relevant information about the asset and liability of the entity' in a manner that is useful in holding the entity to account, and for decision-making purposes, 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 onerous[1] 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 capital[2]. 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 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 is 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 fulfilment[3] 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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IPSAS®

International Public Sector Accounting Standard ®

Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement

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AMENDMENTS TO IPSAS STANDARDS AS A RESULT OF THE APPLICATION OF IPSAS 46, *MEASUREMENT*

CONTENTS

	Page
Introduction	4
Amendment: Part 1 – Applicability of Current Operational Value in IPSAS Standards	6
Amendment: Part 2 – Limited Scope Update to IPSAS 21, *Impairment of Non-Cash Generating Assets*	27
Amendment: Part 3 – Definition of Accounting Estimates (IPSAS 3)	52
Amendment: Part 4 – Improvements to Current Value Measurement Disclosures	64

Introduction

Objective

1. The objective of *Amendments to IPSAS Standards as a Result of the Application of* IPSAS 46, *Measurement,* is to amend IPSAS to:

   (a) Add current operational value as an applicable current value measurement basis at initial and subsequent measurement for IPSAS 12, *Inventories* (Part 1);

   (b) Update the definition of recoverable service amount in IPSAS 21, *Impairment of Non-Cash Generating Assets* (Part 2);

   (c) Add a definition of accounting estimate to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (Part 3), consistent with IPSAS 46 terminology; and

   (d) Enhance the consistency of current value measurement disclosures in relevant IPSAS (Part 4).

IPSAS Standards Amended

2. The table below sets out the amendments to IPSAS Standards, including the summary of changes:

IPSAS Standards	Summary of Change
Part 1. Applicability of Current Operational Value in IPSAS Standards	
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	To reflect that a change in measurement model rather than a change in measurement basis is a change in accounting policy. (See Part 1)
IPSAS 12, *Inventories*	To reflect that current operational value is an applicable measurement basis: • At initial measurement, for inventories acquired in non-exchange transaction; and • At subsequent measurement, for inventories held in accordance with paragraph 17. (See Part 1)
IPSAS 46, *Measurement*	To clarify the application of the principle 'least costly manner' when measuring current operational value. (See Part 1)
Part 2. Limited Scope Update to IPSAS 21, *Impairment of Non-Cash Generating Assets*	
IPSAS 21, *Impairment of Non-Cash Generating Assets*	To update the definition of recoverable service amount to the higher of fair value less costs to sell and current operational

	value; and remove the approaches to determine value in use of a non-cash-generating asset. (See Part 2)
Part 3. Definition of Accounting Estimates (IPSAS 3)	
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	To include a definition of an accounting estimate. (See Part 3)
Part 4. Improvements to Current Value Measurement Disclosures	
IPSAS 16, *Investment Property*	To enhance the consistency of current value measurement disclosure terminology across relevant IPSAS. (See Part 4)
IPSAS 27, *Agriculture*	
IPSAS 30, *Financial Instruments: Disclosures*	
IPSAS 31, *Intangible Assets*	
IPSAS 34, *Separate Financial Statements*	
IPSAS 38, *Disclosure of Interest in Other Entities*	

AMENDMENT: PART 1 – APPLICABILITY OF CURRENT OPERATIONAL VALUE IN IPSAS STANDARDS

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

Paragraphs 40A and 59G are added. Paragraph 40 is amended. New text is underlined and deleted text is struck through.

…

Changes in Accounting Estimates

…

40. A change in the measurement ~~basis~~ model applied is a change in an accounting policy, and is not a change in an accounting estimate. ~~When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.~~ A change in the measurement basis applied within the current value model is a change in an accounting estimate.

40A. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

…

Effective Date

…

59G. **Paragraph 40A was added and paragraph 40 was amended by Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3.

…

Revision of IPSAS 3 as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC16. The IPSASB decided in March 2023 to align IPSAS 3 and IPSAS 45, *Property, Plant, and Equipment*, on how to account for a change between current value measurement bases when an entity elects the current value model as its accounting policy choice in ED 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*.

BC17. During the development of IPSAS 45, the IPSASB decided in September 2022 that an entity choosing to adopt the current value model as its accounting policy choice for subsequent measurement purposes shall measure an item of property, plant, and equipment depending on the primary objective for which the entity holds the asset. Specifically, the IPSASB decided that an item of property, plant, and equipment that an entity holds for its operational capacity shall be measured at current operational value and when held for its financial capacity it shall be measured at fair value.

BC18. The IPSASB discussed the implication of this decision on the requirement in IPSAS 3 to treat a change in measurement basis as a change in accounting policy. IPSAS 45 notes that a change between current value measurement bases, when an entity chooses the current value model as its accounting policy choice, is appropriate when the primary objective for which the entity holds the item of property, plant, and equipment changes from operational capacity to financial capacity, or vice versa.

BC19. The IPSASB decided to amend IPSAS 3 to reflect that a change in measurement model, rather than a change in measurement basis, is a change in accounting policy. When an entity chooses the current value model, instead of the historical cost model, it is making an accounting policy choice that requires an entity to develop an accounting estimate. Because current value measurement bases are accounting estimates, the change between them does not change such accounting policy choice. It is when an entity changes between measurement models that such accounting policy choice changes.

BC20. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed amending IPSAS 3 to reflect that a change in measurement model, rather than a change in measurement basis, is a change in accounting policy. While respondents supported the proposal, some indicated further clarification is needed on what constitutes a change in measurement basis.

BC21. In responding to constituents' comments, the IPSASB decided to clarify that a change in measurement basis applied within the current value model is a change in an accounting estimate, consistent with paragraph BC19.

Amendments to IPSAS 12, *Inventories*

Paragraphs 17A and 51L are added. Paragraphs 1, 9, 16, 17, 31, 43, 50A, 50C(a)-50C(g), 50D, and 50E are amended. Heading above paragraph 43 is amended. New text is underlined and deleted text is struck through.

…

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value or current operational value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

…

Definitions

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

   ~~Current replacement cost~~ ~~is the cost the entity would incur to acquire the asset on the reporting date.~~

   …

   The term current operational value is defined in IPSAS 46, *Measurement*.

…

Measurement of Inventories

…

16. **Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their ~~fair value~~ deemed cost as at the date of acquisition. An entity shall apply IPSAS 46 when measuring the deemed cost of inventories.**

17. **Inventories shall be measured at the lower of cost and ~~current replacement cost~~ current operational value where they are held for:**

    (a) **Distribution at no charge (a transfer expense) or for a nominal charge; ~~or~~**

    (b) **Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or**

    (c) **Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.**

17A. **An entity shall apply IPSAS 46 when measuring the current operational value of inventories measured in accordance with paragraph 17.**

…

Cost of Inventories

…

Techniques for the Measurement of Cost

…

31. Inventories may be transferred to the entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is ~~its fair value as at the date it is acquired~~ measured in accordance with paragraph 16.

…

~~Distributing~~Distribution and Consumption of Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories ~~whose future economic benefits or service potential~~for purposes that are not directly related to their ability to generate net cash inflows. For example, these types of inventories ~~may~~ arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the ~~future economic benefits or~~ service potential of the inventory for financial reporting purposes is ~~reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made~~ measured in accordance with paragraph 17. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

…

Disclosure

…

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 current operational value or fair value ~~on a recurring 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) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

…

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 current operational value or fair value (including measurements based on fair value within the scope of IPSAS 46~~, Measurement~~) in the statement of financial position after initial recognition:

(a) ~~For recurring and non-recurring fair value measurements, t~~The current operational value or fair value measurement at the end of the reporting period, and for ~~non-recurring fair value~~current operational 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 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)~~;~~. For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs;

(c) For ~~recurring and 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 current operational value measurement estimated using significant unobservable inputs, or 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 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 ~~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:

…

(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~~ current operational value 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); and

(g) For ~~recurring~~ fair value measurements categorized within Level 3 of the fair value hierarchy:

…

50D. An entity shall determine the appropriate disaggregation 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 or to the extent to which unobservable inputs are used in estimating current operational value.

The disaggregation may need to be greater for current operational value measurements estimated using unobservable inputs or 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 the appropriate disaggregation of inventories for which disclosures about current operational value or fair value measurements should be provided requires judgment. 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 disaggregation for an inventory, an entity may use that disaggregation in

providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

50E. For each class of inventories 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 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, or for current operational value measurements estimated using unobservable inputs, required by paragraph 50C(c). For such inventories, an entity does not need to provide the other disclosures required by this Standard.

…

Effective Date

…

51L. **Paragraph 17A is added, paragraphs 1, 9, 16, 17, 31, 43, 50A, 50C(a)-50C(g), 50D, and 50E are amended, and heading above paragraph 43 is amended by Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Basis for Conclusions

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

…

Revision of IPSAS 12 as a result of the application of IPSAS 46, *Measurement*

…

BC11. During the development of ED 77, *Measurement*, ~~The~~the IPSASB had 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 ~~IPSAS 46~~ 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 ~~will~~ would allow stakeholders to clearly consider the implications of the proposal.

BC12. After approving IPSAS 46 in March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the Updated Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements.

Revision of IPSAS 12 as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025.

Reasons for Revising IPSAS 12

BC13. In March 2023, the IPSASB commenced the evaluation of the applicability of current operational value across existing IPSAS, except for IPSAS 45, *Property, Plant, and Equipment* where the IPSASB had already decided current operational value was an applicable current value measurement basis for assets held for their operational capacity when the entity elects the current value model as its accounting policy choice.

BC14. The IPSASB developed current operational value in response to constituents' concerns received on the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSAS should be in the scope of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, the IPSASB identified IPSAS that require measurement of assets at current values or non-historical cost measurement basis.

Scope of the Revisions

BC15. The scope of the revisions to IPSAS 12 was limited to the evaluation of the applicability of current operational value for initial and subsequent measurement basis of inventories, to provide more relevant measurement information for inventories held for:

(a) Distribution at no charge (a transfer expense) or for a nominal charge;

(b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or

(c) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.

Evaluation of the Applicability of Current Operational Value

Measurement of Inventories

BC16. The IPSASB evaluated whether current operational value should replace current replacement cost in the measurement of inventories at the 'lower of cost and current replacement cost'. Measuring inventories at the lower of cost and current replacement cost is a public sector specific guidance for specific inventories, see paragraph BC15.

BC17. The IPSASB considered that current replacement cost and current operational value are both amounts that the entity would pay for the asset at the measurement date and share key principles - entry values, entity-specific, and reflect the current condition of the existing asset. Therefore, replacing current replacement cost with current operational value is not expected to result in measurement differences, but rather will align IPSAS 12 measurement guidance with the IPSASB's updated measurement guidance in IPSAS 46, *Measurement*.

BC18. The IPSASB agreed that current operational value should replace current replacement cost when measuring inventories at the lower of cost and current replacement cost.

Initial Measurement of Inventories Acquired through a Non-Exchange Transaction

BC19. For inventories acquired through a non-exchange transaction, the IPSASB agreed to align IPSAS 12 initial measurement (i.e., fair value) with IPSAS 46 guidance. The alignment of the guidance results in an entity initially measuring inventories at deemed cost, meaning at current operational value or fair value depending on whether the entity holds the inventories for financial capacity or as described in paragraph BC15. The IPSASB noted that this will prevent a revaluation of inventories to current operational value after initial recognition solely because of differences between current value measurement bases.

Responses to the Initial and Subsequent Measurement of Inventories Proposed in ED 90

BC20. The IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement* in August 2024. The proposals to replace 'current replacement cost' with 'current operational value' in the measurement of inventories at the 'lower of cost and current replacement cost' was strongly supported by constituents. Some respondents raised concerns, such as:

(a) Questioning whether the costs of aligning IPSAS 12 measurement guidance with IPSAS 46 outweigh the benefits;

(b) Requesting additional application guidance to estimate current operational value; or

(c) Noting that jurisdiction or entity-specific reasons will make the estimation of current operational value challenging.

BC21. The IPSASB considered the issues raised by these respondents and decided to proceed with ED 90 proposals because:

(a) As noted by other respondents, current replacement cost and current operational value shared key principles, and the values are expected to be similar; as such, costs of implementation are not expected to outweigh its benefits; and

(b) Consistent with its objective, IPSAS 46 contains guidance to help entities estimate the measurement bases in its scope, such as the current operational value.

Measuring Biological Assets (IPSAS 27) at the Lower of Cost and Current Operational Value

BC22. Paragraph 29 requires the cost of inventories comprising agricultural produce that an entity has harvested from its biological assets to be fair value less cost to sell at the point of harvest in accordance with IPSAS 27,

Agriculture. Measuring inventories comprising agricultural produce that an entity has harvested from its biological assets at the lower of cost and current operational value could result in a revaluation when current operational value is lower than cost (i.e., fair value less cost to sell when the agricultural produce becomes inventory).

BC23. The IPSASB agreed that the introduction of current operational value for the measurement of specific inventories, see paragraph BC15, is consistent with existing measurement guidance to measure inventory at the lower of cost and current replacement cost because:

(a) The IPSASB noted that the practice of writing inventories down below cost, in this case to current operational value, is consistent with the view that assets are not to be carried in excess of the service potential expected to be realized from their distribution, or consumption; and

(b) The expectation that current replacement cost and current operational value will yield a similar, if not the same, value.

Current Value Measurement Disclosures

BC24. During the development of Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, the IPSASB decided to remove the terms ‘recurring’ and ‘non-recurring’ to enhance the consistency of current value measurement disclosure terminology across IPSAS. The IPSASB noted that whether a current value measurement basis is applied on a recurring or non-recurring basis after initial recognition is specified in the relevant IPSAS. Therefore, having these terms can lead to inconsistent application of the current value measurement disclosure principles.

BC25. The IPSASB published ED 90 in August 2024. The ED proposed enhancing current value measurement disclosures by removing the terms ‘recurring and non-recurring’ and adding current operational value disclosures in IPSAS 12. The current value measurement disclosures added were on a non-recurring basis because the measurement of inventories at current operational value at subsequent measurement take place on a non-recurring basis (i.e., when an inventory in the scope of paragraph 17 is written down to current operational value because this is lower than its cost).

BC26. A respondent to ED 90 sought clarification for:

(a) Current value measurement disclosures requirements at subsequent measurement for inventories at current operational value; however, the same disclosures are not required for inventories subsequently measured at net realizable value; and

(b) The reason why IPSAS 46 did not include similar current value measurement disclosures for current replacement cost, as those proposed in ED 90 for subsequent measurement at current operational value.

BC27. The IPSASB noted that current value measurement disclosures were added across IPSAS Standards to enhance the disclosures of measurement bases in the scope of IPSAS 46. Disclosures are required only for assets subsequently measured under a measurement basis available in the current value model. Measurement bases for assets available in the current value model are current operational value and fair value. Therefore, current value measurement disclosures are not required when inventories are subsequently measured at net realizable value.

BC28. The IPSASB noted respondents' support for enhancing current value measurement disclosures as proposed in ED 90. Therefore, it decided to proceed with removing ‘recurring and non-recurring’ from current value measurement disclosures in IPSAS 12. The IPSASB does not consider the respondent comments, documented in BC26, to challenge the proposal to remove the term ‘recurring and non-recurring’.

…

COMPARISON WITH IAS 2

IPSAS 12, *Inventories* is drawn from IAS 2 *Inventories* (Revised 2003). The main differences between IPSAS 12 and IAS 2 are as follows:

…

- ~~A definition of current replacement cost, which is additional to the definitions in IAS 2, has been included in IPSAS 12.~~ [Deleted]
- IPSAS 12 requires that where inventories are acquired through a non-exchange transaction, their cost is their deemed cost ~~fair value~~ as at the date of acquisition.
- IPSAS 12 requires that certain inventories, see paragraph 17, ~~where inventories are provided at no charge or for a nominal charge, they are to~~ be valued at the lower of cost and current operational value ~~current replacement cost~~.

…

Amendments to IPSAS 46, *Measurement*

Paragraphs 23, B4-B6, and B9 are amended. Paragraph 56A is added. New text is underlined and deleted text is struck through.

…

Measurement

…

Subsequent Measurement

…

Measurement Bases

…

Current Operational Value Basis

23. Current operational value is an entry, entity-specific amount that the entity would pay for the remaining service potential of an asset in the least costly manner at the measurement date. Current operational value provides monetary information about assets, and related amortization, depreciation, etc., 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.

…

Effective Date and Transition

Effective Date

…

56A. **Paragraphs 23, B4-B6, and B9 are amended by Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Appendix B

Current Operational Value

This Appendix is an integral part of IPSAS 46.

Measurement

…

The Amount an Entity would Pay

…

B4. The amount an entity would pay is:

(a) The price to acquire the identical, or a similar, asset ~~in an active market~~; or

(b) The costs that would be incurred to develop or produce the identical, or a similar, asset.

B5. ~~When an active market exists for~~ The price to acquire the identical~~, or a similar,~~ asset, ~~current operational value uses this price as~~ is the amount an entity would pay for the asset in an active market. If an active market for the identical asset does not exist an entity will need to estimate current operational value using appropriate measurement techniques.

B6. ~~When no active market exists, a reliable acquisition price for an identical, or similar, asset will generally not exist. Current operational value will then need to be~~ The costs that would be incurred to develop, or produce the identical, or a similar, asset is estimated ~~based on the costs to develop or produce the asset~~ using available price information. For example, many military assets, such as an aircraft, generally do not have active markets. Such assets often cannot be acquired as a finished product that is identical, or similar, to the aircraft under valuation. Measuring the cost of each part of the asset, such as the fuselage, engine, electronics etc., and the cost to assemble them into the same, or similar, aircraft, adjusted for the age, functionality, and condition, will generally be necessary to estimate the aircraft's current operational value.

…

The Least Costly Manner

B9. A current operational value measure assumes the amount an entity would pay for the remaining service potential of an asset at the measurement date is the least costly amount for the asset in an orderly transaction.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 46.

…

Initial Measurement (paragraphs 7–16)

…

Deemed Cost

…

BC23A. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement* proposing to align the initial measurement of inventories acquired through a non-exchange transaction with IPSAS 46. Some respondents to ED 90 requested that the IPSASB clarify what current value measurement basis should be applied to determine the deemed cost of inventory acquired in a non-exchange transaction, noting that IPSAS 12 refers the reader to IPSAS 46 and does not specify whether an entity should estimate deemed cost of an asset using current operational value or fair value.

BC23B. The IPSASB considered these views, noting that implementation guidance on Section B: Selection of Measurement Bases could be enhanced to ensure the consistent determination of deemed cost of a non-exchange transaction. The IPSASB discussed whether the guidance should be included in IPSAS 12 instead of IPSAS 46; however, it decided that it should be included in IPSAS 46, as this standard provides generic guidance to ensure the consistent application of measurement bases in its scope and is relevant to other IPSAS.

BC23C. In response to constituents' comments, the IPSASB decided to add implementation guidance that notes that whether an entity applies current operational or fair value depends on the primary objective for which the entity holds the asset.

Current Operational Value (Appendix B)

…

Current Operational Value – Amount the Entity Would Pay

…

Revision of IPSAS 46 as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*

The Amount the Entity Would Pay – Least Costly Manner

BC49A. During the development of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* and the analysis of the responses received by the IPSASB for Exposure Draft 84, Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23), the IPSASB noted that ‘least costly manner’ could be interpreted to include concessionary elements, such as those received in concessionary leases.

BC49B. The IPSASB noted that the inclusion of a concessionary element when determining the current operational value of an asset would not provide users with information that is a faithful representation of the transaction. The IPSASB agreed that the ‘least costly manner’ should not be interpreted to include a concessionary element, because current operational value is a measurement basis that achieves the qualitative

characteristics in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, such as faithfully presenting relevant valuation information about the asset to users.

BC49C. The IPSASB decided to clarify the application of the current operational value principle, 'least costly manner'. The amendments to IPSAS 46 seek to ensure consistent application of current operational value.

…

Current Operational Value – Measurement Techniques

…

BC60. The IPSASB agreed the income approach is not an appropriate measurement technique when estimating the value of the asset when measured at current operational value. Given public sector assets often generate little to no cash flows, and generally cash flows are insufficient to cover operating expenses, the IPSASB concluded discounting future income streams would be impracticable. Furthermore, given the nature of current operational value, the income approach would not be applied in conjunction with another measurement technique because discounting future cash flows is not necessary given the market approach assumes pricing for the asset is available on the measurement date, and the cost approach assumes the production or development of the asset is immediate. However, the exclusion of the income approach as a measurement technique to estimate current operational value does not preclude the use of the present value technique in the market approach or the cost approach when the time value of money is material.

Use of Current Operational Value throughout IPSAS

…

BC63. The IPSASB had 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 Standard was issued.

BC63A. After approving this Standard in March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in this Standard and the updated objective of measurement of assets in the Updated Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements. See paragraphs BC92-BC105 for the analysis as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*.

…

Disclosures

…

Improvements to Current Value Measurement Disclosures

BC88A. As part of the IPSASB's review of the applicability of current operational value in ED 90, the IPSASB reviewed the current value measurement disclosures and concluded that the term 'recurring or non-recurring' is not necessary when an IPSAS only requires recurring current value measurement of assets. The IPSASB noted that whether a current value measurement basis is applied on a recurring basis after initial recognition is specified in the relevant IPSAS. Therefore, having these terms can lead to inconsistent application of the current value measurement disclosure principles.

BC88B. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal in Part 4 of ED 90, a few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC88C. The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosures paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to assets measurement using current value measurement basis in the statement of financial position after initial recognition.

…

Analysis as a result of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*

Scope

BC92. The IPSASB developed current operational value in response to constituents' concerns received on the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSAS should be in the scope of the Measurement Application Phase project, the IPSASB identified IPSAS that require measurement of assets at current values or non-historical cost measurement basis.

BC93. The following IPSAS were in the scope of the Measurement Application Phase project:

(a) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*;

(b) IPSAS 12, *Inventories*;

(c) IPSAS 16, *Investment Property*;

(d) IPSAS 21, *Impairment of Non-Cash-Generating Assets*;

(e) IPSAS 27, *Agriculture*;

(f) IPSAS 31, *Intangible Assets*;

(g) IPSAS 32, *Service Concession Arrangements: Grantor*;

(h) IPSAS 36, *Investments in Associates and Joint Ventures*;

(i) IPSAS 37, *Joint Arrangements*;

(j) IPSAS 40, *Public Sector Combinations*;

(k) IPSAS 41, *Financial Instruments*; and

(l) IPSAS 43, *Leases*.

Applicability of Current Operational Value

BC94. During the development of ED 90, the IPSASB had concluded current operational value is an applicable measurement basis:

(a) At initial measurement, for the determination of deemed cost, for inventories (IPSAS 12) and intangible assets (IPSAS 31) acquired through a non-exchange transaction;

(b) At subsequent measurement for inventories (IPSAS 12) held for:

(i) Distribution at no charge (a transfer expense) or for a nominal charge;

(ii) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or

(iii) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge;

(c) At subsequent measurement for intangible assets (IPSAS 31) held for their operational capacity, when the entity chooses the current value model as its accounting policy choice;

(d) At subsequent measurement for service concession assets (IPSAS 32) when the entity chooses the current value model as its accounting policy choice in accordance with IPSAS 31 or IPSAS 45; and

(e) At subsequent measurement for right-of-use assets (IPSAS 43) when the lessee chooses the current value model as its accounting policy choice in accordance with IPSAS 45.

BC95. The IPSASB had concluded current operational value is applicable to these transactions based on the intended use or the entity's reasons for holding the asset (i.e., the assets are held for their operational capacity) and current operational value will present more relevant measurement information to users in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC96. The IPSASB had agreed that amendments are not required to IPSAS 32 and IPSAS 43 on the applicability of current operational value at subsequent measurement for service concession assets and right-of-use assets because these IPSAS cross reference to IPSAS 31 and IPSAS 45. Revisions of IPSAS 12 and IPSAS 31 as a result of ED 90 were proposed, further information on the amendments and the IPSASB's decision on the evaluation of current operational value can be found in paragraphs BC16-BC23 of IPSAS 12 and BC107-BC108, respectively.

BC97. The IPSASB had concluded that current operational value is an applicable current value measurement for:

(a) Service concession assets subsequently measured in accordance with IPSAS 31 and IPSAS 45 because consistency in the subsequent measurement guidance ensures comparability.

(b) Right-of-use assets subsequently measured in accordance with IPSAS 45 because the subsequent measurement guidance should not change depending on whether the asset is owned or leased.

BC98. The IPSASB had concluded that current operational value is not an applicable current value measurement for assets in the scope of:

(a) IPSAS 16 because these are held for their financial capacity;

(b) IPSAS 27 because the biological transformation these assets undergo during their lifespan is best reflected by fair value less costs to sell,

(c) IPSAS 41 because financial assets do not have service potential on their own; and

(d) IPSAS 36 because current operational value does not reflect the investor's ability to participate in the financial and operating decisions of the investee.

BC99. The IPSASB noted that measurement requirements of assets within the scope of IPSAS 37 and IPSAS 40 are determined by reference to other IPSAS. Thus, it was decided that this final pronouncement should not amend IPSAS 37 and IPSAS 40, and the measurement of an asset within their scope should continue to be determined by reference to the relevant IPSAS.

Applicability of Current Operational Value – Right of Use Assets

BC100. During the development of ED 90, the IPSASB evaluated the applicability of current operational value for right-of-use assets (i.e., assets in the scope of IPSAS 43) subsequently measured in accordance with IPSAS 45.

BC101. The IPSASB had noted that the value of right-of-use assets is most commonly estimated by discounting the expected lease payments. Considering this, the IPSASB discussed whether current operational value could be used to subsequently measure right-of-use assets. The discussion resulted in the following two views:

(a) View 1. An entity should discount cash flows when applying the market approach and the cost approach to estimate the current operational value of an asset at subsequent measurement. For example, applying the market approach would require an entity to estimate the current operational value of a right-of-use asset by discounting observable lease payments of an identical or comparable right-of-use asset in an active market.

(b) View 2. The absence of the income approach to convert future amounts to a single current amount, results in limited practical application of current operational value to estimate the value of a right-of-use asset at subsequent measurement.

BC102. Having considered both views, the IPSASB had concluded that the ability to discount cash flows is a concept that is not limited to one measurement technique and that current operational value is an applicable measurement basis for right-of-use assets subsequently measured in accordance with IPSAS 45 using the market approach or cost approach.

Responses to the Applicability of Current Operational Value at Initial and Subsequent Measurement Proposed in ED 90

BC103. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement.* The following proposals in ED 90 received strong constituent support:

(a) Current operational value is an applicable measurement basis for inventories (IPSAS 12) acquired through a non-exchange transaction;

(b) Current operational value should replace ‘current replacement cost’ in the measurement of inventories (IPSAS 12.17) at ‘the lower of cost and current replacement cost’;

(c) Current operational value is an applicable subsequent measurement basis for service concessions assets (IPSAS 32) when the entity chooses the current value model as its accounting policy choice in accordance with IPSAS 45; and

(d) Current operational value is an applicable subsequent measurement basis for right-of-use assets (IPSAS 43) when the lessee chooses the current value model as its accounting policy choice in accordance with IPSAS 45.

BC104. Some respondents noted the following issues:

(a) Current operational value cannot be applied to right-of-use assets without the income approach as one of its measurement techniques;

(b) Additional guidance is required to determine current operational value of a right-of-use asset because current operational value was developed for tangible assets, noting uncertainty regarding the applicability of certain current operational value principles—‘modern equivalent’ and existing location’; and

(c) Additional guidance is required to assist preparers in estimating the current operational value of a right-of-use asset when using the cost approach.

BC105. The IPSASB considered these views and decided to proceed with the strongly supported proposals above because:

(a) Present value techniques are not exclusive to the income approach; rather, an entity applies present value techniques when estimating current operational value using the market or cost approach when the time value of money is material;

(b) Though current operational value was first applied to property, plant, and equipment, this should not be interpreted to mean current operational value was developed exclusively for tangible assets; and

(c) IPSAS 46 includes principles-based guidance to estimate current operational value using the cost approach. Additionally, the IPSASB noted that both the market and the cost approach are well-understood measurement techniques.

BC106. Two respondents sought clarification on the IPSASB's conclusion on the applicability of the current operational value for assets in the scope of IPSAS 27 and IPSAS 41, respectively. The IPSASB discussed that though assets in the scope of IPSAS 27 can be distributed at no charge or for a nominal charge, fair value less costs to sell provides more relevant and useful information for decision-making as it reflects the maximization of the output. The IPSASB discussed that financial assets (IPSAS 41) can contribute to service delivery objectives; however, it does not have service potential on their own. The IPSASB considered these and decided to proceed with its decision that current operational value is not an applicable current value measurement for such assets.

BC107. ED 90 proposed that current operational value is an applicable current value measurement basis at initial and subsequent measurement for intangible assets and proposed to amend IPSAS 31. While a majority of respondents to ED 90 supported the proposal, a significant number of respondents did not. The majority of these views either supported a component or the entirety of the Alternative View included in ED 90:

(a) The applicability of current operational value should be considered after the IASB completes its comprehensive project on IAS 38 *Intangible Assets*;

(b) The absence of an active market restriction for the determination of current operational value within the current value model in IPSAS 31 may impact the reliability and faithfulness of intangible assets' current value; and

(c) There is uncertainty about the applicability of certain current operational value principles to intangible assets.

BC108. The IPSASB considered these views and decided to conduct further analysis on the applicability of the current operational value for assets in the scope of IPSAS 31. Therefore, at this time, proposals to amend IPSAS 31 were removed from Part 1 of this final pronouncement.

IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors

BC109. The IPSASB decided in December 2023 to amend IPSAS 3 to reflect that a change in measurement model rather than a change in measurement basis is a change in accounting policy.

Limited Scope Update of IPSAS 21, Impairment of Non-Cash-Generating Assets

BC110. The IPSASB concluded that the two branches of recoverable service amount in IPSAS 21 shall be current operational value and fair value less costs to sell, and that depreciated replacement cost, restoration cost and service unit approaches should be removed from the updated IPSAS 21. These changes were made to

enhance the usefulness of the measurement information provided and to align IPSAS 21 measurement principles with IPSAS 46 and updated Chapter 7 of the Conceptual Framework.

Definition of an Accounting Estimate

BC111. The IPSASB decided that the revisions to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* included in *Definition of Accounting Estimates* (Amendments to IAS 8) issued by the IASB in February 2021 should be in the scope of Part 3 of this Final Pronouncement. However, if the amendments to IAS 8 were adopted verbatim in IPSAS 3, it would result in terminology inconsistencies within the IPSAS literature, specifically with the meaning of the term 'measurement techniques' introduced by IPSAS 46. Therefore, the IPSASB decided the amendments to IPSAS 3 would be aligned with the terminology of IPSAS 46.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 46.

…

Section A: Measurement

…

A.2. What disclosures are required when applying current value measurements bases in IPSAS?

~~For assets and liabilities measured using the current value model, additional disclosures are required.~~ The level of necessary disclosures depends on whether the current value measurement is applied on a recurring or non-recurring basis after initial recognition. Recurring current value measurements of assets are those that the specific IPSAS requires or permits in the statement of financial position at the end of each reporting period. Non-recurring current value measurements of assets are those that the specific IPSAS requires or permits in the statement of financial position in particular circumstances, such as when an entity subsequently measures inventories at current operational value because the inventories' current operational value is lower than its cost.

Disclosures for recurring and non-recurring measurements are required ~~With recurring remeasurements,~~ because new information is available ~~as~~ at ~~each~~ the 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. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied. For example, disclosures related to the fair value hierarchy are inserted in the relevant IPSAS as follows:

…

Section D: Selection of Measurement Bases

…

B.4. How should an entity select between current value measurement bases when estimating deemed cost at initial measurement, when an asset is acquired in a non-exchange transaction?

The selection of measurement basis to estimate deemed cost, at initial measurement, takes into consideration the primary objective for which the entity holds the asset:

(a) When an entity holds an asset for its operational capacity, it will measure the deemed cost using current operational value. This is because current operational value faithfully represents the value of the asset to the public sector entity in its operational capacity.

(b) When an entity holds an asset for its financial capacity, it will measure the deemed cost using fair value. This is because fair value faithfully represents the value of the asset to the public sector entity in its financial capacity.

…

Section D: Current Operational Value

…

D.7. Does the least costly amount an entity would pay for the remaining service potential of an asset include concessionary elements received by an entity when determining the current operational value of an asset?

No. Current operational value measures the amount the entity would pay for the remaining service potential of the asset in an orderly transaction. The inclusion of a concessionary element when determining current

operational value will incorporate a non-exchange element into the value and would not faithfully present relevant information to users of general purpose financial statements. For example, an entity that at subsequent measurement is determining the current value of a donated asset (i.e., building), initially recognized at deemed cost, will determine the current value of the asset using current operational value or fair value, which excludes the concessionary element from its measurement.

AMENDMENT: PART 2 – LIMITED SCOPE UPDATE TO IPSAS 21, IMPAIRMENT OF NON-CASH GENERATING ASSETS

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

Paragraphs 10A, 14, 35-40, 67(a)-67(b), and 77(e)-77(f) are amended. Paragraphs 10A(a), 10A(b), 41-42, and 44-50 are deleted. Paragraphs 39B, 39C, 43A, 77(f)(i)-77(f)(iii) and 82O, and the heading above paragraph 39B are added.

…

Scope

…

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 IPSAS 45, *Property, Plant, and Equipment* and the current value ~~revaluation~~ model in IPSAS 31, *Intangible Assets*.

(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.~~ [Deleted]

(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 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.~~ [Deleted]

…

Definitions

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

~~An active market is a market in which all the following conditions exist:~~ [Deleted]

(a) **~~The items traded within the market are homogeneous;~~[Deleted]**

(b) **~~Willing buyers and sellers can normally be found at any time; and~~ [Deleted]**

(c) **~~Prices are available to the public.~~ [Deleted]**

...

Fair value less costs to sell is the price that would be received to sell the asset in an orderly transaction between market participants ~~amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties,~~ less the costs of disposal.

...

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its current operational value ~~and its value in use~~.

…

~~**Useful life is either:**~~

(a) ~~**The period of time over which an asset is expected to be used by the entity.; or**~~ **[Deleted]**

(b) ~~**The number of production or similar units expected to be obtained from the asset by the entity.**~~ **[Deleted]**

~~**Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.**~~ **[Deleted]**

…

The following term is defined and used in this Standard with the same meaning as in IPSAS 45:

(a) **Useful life.**

The following terms are defined and are used in this Standard with the same meaning as in IPSAS 46, *Measurement*:

(a) **Active market;**

(b) **Current operational value; and**

(c) **Fair Value.**

…

Measuring Recoverable Service Amount

35. This Standard defines recoverable service amount as the higher of an asset's fair value, less costs to sell, and its ~~value in use~~ current operational value. Paragraphs 36–43 set out the basis for measuring recoverable service amount.

36. It is not always necessary to determine both an asset's fair value less costs to sell and its current operational 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.

37. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. ~~Paragraph 42 sets out possible alternative bases for estimating fair value less costs to sell when an active market for the asset does not exist.~~ IPSAS 46 identifies three measurement techniques: the cost approach, market approach, and income approach. Appendix D Fair Value of IPSAS 46 provides guidance on these measurement techniques and their application. However, sometimes it will not be possible to determine fair value less costs to sell, because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an orderly transaction ~~arm's length transaction between knowledgeable and willing parties~~. In this case, the entity may use the asset's ~~value in use~~ current operational value as its recoverable service amount.

38. If there is no reason to believe that an asset's ~~value in use~~ current operational value materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable service 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.~~ However, for many public sector non-cash-generating assets that are held on an ongoing basis to provide ~~specialized~~ services or public goods to the community, the ~~value in use~~ current operational value of the asset is likely to be greater than its fair value less costs to sell.

39. In some cases, estimates, averages, and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or ~~value in use~~ current operational value.

…

Current Operational Value

39B. Appendix B Current Operational Value of IPSAS 46 provides authoritative guidance on current operational value, including the components of the definition and the measurement techniques to estimate current operational value.

39C. Current operational value is likely to be relevant to the determination of recoverable service amount for many assets held for the delivery of services, especially assets which are specialized, and where there are restrictions on an alternative use to that for which the asset is currently deployed.

Fair Value Less Costs to Sell

40. Appendix D of IPSAS 46 provides authoritative guidance on fair value. The best evidence of an asset's fair value less costs to sell is an observable price in an active market ~~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. Appendix D of IPSAS 46 discusses measurement techniques to determine fair value indirectly and the fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value.

41. ~~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].

42. ~~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 to reflect the amount that an entity could obtain, at 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 could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.~~ [Deleted]

…

~~**Value in Use**~~ **[Deleted]**

44. ~~This Standard defines the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. Value in use in this Standard refers to value in use of a non-cash-generating asset, unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs 45–49, as appropriate.~~ [Deleted]

~~*Depreciated Replacement Cost Approach*~~ *[Deleted]*

45. ~~Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.~~ [Deleted]

46. ~~The replacement cost and reproduction cost of an asset are determined on an optimized basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features that are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.~~ [Deleted]

47. ~~In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.~~ [Deleted]

~~Restoration Cost Approach~~ [Deleted]

48. ~~Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower. Paragraphs 45 and 47 include additional guidance on determining the replacement cost or reproduction cost of an asset.~~ [Deleted]

~~Service Units Approach~~ [Deleted]

49. ~~Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.~~ [Deleted]

~~Application of Approaches~~ [Deleted]

50. ~~The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:~~ [Deleted]

    (a) ~~Impairments identified from significant long-term changes in the technological, legal, or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate;~~ [Deleted]

    (b) ~~Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near-cessation of demand, are generally measurable using a depreciated replacement cost or a service units approach, when appropriate; and~~ [Deleted]

    (c) ~~Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach, when appropriate.~~ [Deleted]

…

Reversing an Impairment Loss

…

67. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that

asset. Paragraph 77 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

(a) A change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on fair value less costs to sell or current operational value ~~in use~~);

(b) If recoverable service amount was based on current operational value ~~in use~~, a change in estimate of the components of current operational value ~~in use~~; or

…

Disclosure

…

77. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period:**

(a) …

…

(e) **Whether the recoverable service amount of the asset is its fair value less costs to sell or its ~~value in use~~ current operational value;**

(f) **If the recoverable service amount is fair value less costs to sell, ~~the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market)~~ the entity shall disclose the following information:**

(i) The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement of the asset is categorized in its entirety (without taking into account whether 'costs to sell' are observable);

(ii) For fair value measurements categorized with Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) used to measure fair value less costs to sell. 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 with Level 2 and Level 3 of the fair value hierarchy, each key assumption on which measurement has based its determination of fair value less costs to sell. Key assumptions are those to which the asset's recoverable service amount is most sensitive.

(g) **If the recoverable service amount is ~~value in use~~ current operational value the measurement technique ~~approach~~ used to determine ~~value in use~~ current operational value.**

…

Effective Date and Transition

Effective Date

…

82O. **Paragraphs 10A, 14, 35-40, 67(a)-67(b), and 77(e)-77(f) are amended, paragraphs 10A(a), 10A(b), 41-42, and 44-50 are deleted, and paragraphs 39B, 39C, and 77(f)(i)-77(f)(iii) are added by Part 2 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements**

covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Amendments to Other IPSAS Standards and the Conceptual Framework

Amendments to IPSAS 46, *Measurement*

Paragraph 56B is added and 4(c) is amended. New text is underlined and deleted text is struck through.

…

Scope

…

4. The measurement requirements of this Standard do not apply to the following:

…

(c) Measurements that have some similarities to the measurement bases in this 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 Standard is applied in measuring fair value as required in IPSAS ~~21 and~~ 26).

…

Effective Date and Transition

Effective Date

…

56B. **Paragraph 4(c) is amended by Part 2 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Amendments to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Paragraphs 7.17, 7.57, and 7.62 are amended. Paragraphs 7.59 and 7.61 are deleted. New text is underlined and deleted text is struck through.

…

Chapter 7: Measurement of Assets and Liabilities in Financial Statements

…

The Objective of Measurement

…

The Selection of Measurement Models and Measurement Bases

…

7.17 Value in use is used solely for the impairment of cash-generating assets, and therefore is discussed separately in paragraphs 7.57-7.62

…

Measurement Bases for Assets

…

Value in Use

…

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

…

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.~~ [Deleted]

…

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.~~ [Deleted]

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.

…

Basis for Conclusions

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

…

Updating of IPSAS 21 as a result of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*

Reasons for Updating IPSAS 21

BC29. The IPSASB decided to update IPSAS 21 because of:

(a) The publication of IPSAS 46, *Measurement*, in May 2023, in particular the adoption of current operational value as a public sector specific current value measurement basis for assets held for operational capacity and the revised definition of, and guidance on, fair value; and

(b) Reservations expressed about the term, and description of, "value in use of a non-cash-generating asset" during the updating of Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

Scope of Limited Scope Update

BC30. Consistent with the above reasons, the scope of the update was limited to the definition, and branches, of, recoverable service amount — specifically whether current operational value should be directly or indirectly adopted as a branch of recoverable service amount and whether fair value less costs to sell should be retained as a branch of recoverable service amount. Therefore, the update did not consider other aspects of impairment including:

(a) Indications of impairment;

(b) Recognizing and measuring impairment losses;

(c) Reversals of impairment losses; and

(d) The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets.

Retention of fair value less costs to sell

BC31. The IPSASB considered whether fair value less costs to sell should be retained as a branch of recoverable service amount following the revised definition of, and guidance on, fair value in IPSAS 46. In the definition of 'fair value' in IPSAS 17, *Property, Plant, and Equipment*, the predecessor of IPSAS 45, *Property, Plant, and Equipment*, fair value could be applied to assets held for operational capacity through application of depreciated replacement cost, restoration cost, and the service units approach. Conversely, in IPSAS 46, the value premise for fair value is based on a highest and best use assumption. The definition of fair value in IPSAS 46 is therefore an exit value, which reflects the perspective of a market participant. While the revised measurement basis is appropriate for the assessment of impairments for cash-generating assets held for financial capacity, it was less clear whether it is relevant as a branch of recoverable service amount for assets held for operational capacity.

BC32. The IPSASB acknowledged concerns that the determination of fair value less costs to sell could impose unnecessary costs on preparers. However, in most cases it will be clear whether current operational value is higher than the carrying amount, and there will be no need to determine fair value less costs to sell.

BC33. The IPSASB analyzed this issue by considering the example of an office building measured at historical cost, which is used to provide educational support services. A change in the legislative environment had led to a

decline in demand for such services. No decision has been made to dispose of the office building, so the building is not within the scope of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*. Individual floors of the building cannot be leased for security reasons, so the building is treated as a single unit of account. There is an active market for such office buildings.

BC34. Despite the fact that there is a permanent decline in demand for the services provided by the asset it is clear that, in light of the buoyant commercial property market, the non-specialized nature of the asset, and the fact that there are no legal restrictions on the use of the asset, fair value less costs to sell may be higher than both carrying amount and current operational value. Therefore, there is no impairment loss. A failure to determine fair value less costs to sell in these and similar circumstances may lead to recognition of an impairment loss, when the reality is that there is no loss. Recognition of such a loss will have an adverse impact on the faithful representation of financial position and financial performance.

BC35. The IPSASB therefore concluded that fair value less costs to sell may be the determinant of recoverable service amount when an asset is non-specialized and there are no restrictions on its use, so that a market participant can deploy the asset for its highest and best use. Fair value less costs to sell may also be relevant where, as a result of an impairment, a previously operative asset does not provide service potential at the measurement date but has a scrap value. Consequently, the IPSASB decided to retain fair value less costs to sell as a branch of recoverable service amount in the updated IPSAS 21.

Value in use of a non-cash-generating asset and alternatives

Introduction

BC36. The IPSASB considered three options for the retention or replacement of value in use of a non-cash-generating asset as a branch of recoverable service amount:

(a) Retain the definition of “value in use of a non-cash-generating asset”, the methods of determining the present value of an asset’s remaining service potential, and the accompanying guidance and illustrative examples.

(b) Use current operational value as a surrogate for “value in use of a non-cash-generating asset” as a branch of recoverable service amount.

(c) Adopt current operational value as a branch of recoverable service amount in its own right.

Approach (a): Retention of value in use of a non-cash-generating asset

BC37. Approach (a) would retain the definitions, methods, and guidance that have been in IPSASB’s standards-level literature since the publication of IPSAS 21 in 2004.

BC38. IPSASB considered that the term “present value” in the definition of “value in use of a non-cash-generating asset” implies a discounted cash flow approach. IPSAS 21 identifies and provides guidance on, three approaches to determining value in use of a non-cash-generating asset — depreciated replacement cost, restoration cost and the service units approach. These approaches do not involve risk adjustments and discounting cash flows to a present value. Therefore, “value in use” is not being used in the same way as in IPSAS 26 and IAS 36.

BC39. The current requirements and guidance in IPSAS 21 are also inconsistent with IPSAS 46 and the Conceptual Framework. IPSAS 46 does not include depreciated replacement cost as a measurement technique. Unlike IPSAS 17, and IPSAS 21, IPSAS 46 does not include restoration cost or the service units approach as methods of estimating fair value for specialized items of property, plant, and equipment. The Conceptual Framework did not retain replacement cost as a measurement basis in the recently updated Chapter 7, because of the introduction of current operational value and the similarity of depreciated replacement cost and the cost approach to current operational value.

BC40. Therefore, the IPSASB rejected an approach that does not use value in use consistently with IPSASB and IASB literature and includes techniques that are no longer in IPSASB's literature on measurement.

Approach (b) Adopting current operational value as a surrogate for value in use

BC41. Unlike fair value, current operational value reflects the value of an asset in its existing use rather than the asset's highest and best use. In assessing the remaining service potential of an asset, current operational value takes into account the current age, functionality, and condition of the asset, and reflects factors such as physical, functional, and economic obsolescence.

BC42. The IPSASB considered that, because current operational value reflects the amount that an entity would pay for the remaining service potential of an asset in its existing condition, its existing use, and its existing location it reflects the value of the asset to the entity. Consequently, the IPSASB concluded that current operational value is appropriate for determining an impairment loss (or a reversal of an impairment loss) for a non-cash-generating asset held for its operational capacity.

BC43. However, the IPSASB did not support Approach (b) because it would retain the definition of "value in use of a non-cash-generating asset". As for Approach (a) this is inconsistent with the definition of "value in use" in IPSAS 26 and IAS 36.

Approach (c) Adopt current operational value as a branch of recoverable service amount in its own right.

BC44. In Approach (c) the branches of recoverable service amount are current operational value and fair value less costs to sell. Replacing value in use of a non-cash-generating asset with current operational value updates the terminology in IPSAS 21 to reflect the measurement guidance in IPSAS 46. The revised definition of recoverable service amount is consistent with the main principle of impairment testing that the carrying amount of an asset should be written down to the higher of:

(a) The value of the asset to the entity in operation (i.e., current operational value); or

(b) The amount for which the asset could be sold (i.e., fair value).

BC45. Where an entity has selected the current value model for subsequent measurement it will already be presenting assets held for operational capacity at current operational value in accordance with IPSAS 45. The use of current operational value as a branch of recoverable service amount will therefore have cost-benefit advantages for entities that have adopted the current value model.

BC46. The IPSASB decided to adopt Approach (c) because replacing 'value in use of a non-cash-generating asset' with current operational value in the definition of recoverable service amount updates the measurement guidance in IPSAS 21 with measurement guidance in IPSAS 46 and the Conceptual Framework. Additionally, it is considered to result in cost benefits when entities have adopted the current value model in IPSAS 45.

Implications of adoption of current operational value for entities that have adopted the current value model for measurement subsequent to recognition

BC47. The IPSASB further considered the implications of the adoption of current operational value as a branch of recoverable service amount for entities that apply the current value model for measurement subsequent to recognition. In 2016, the scope of IPSAS 21 was broadened to bring property, plant, and equipment and intangible assets that are measured under the revaluation model (the predecessor of the current value model in IPSAS 46) within the scope of IPSAS 21 and IPSAS 26.

BC48. Many entities that apply the current value model for measurement subsequent to recognition, will revalue assets on a rolling program over a specified period. IPSAS 45, *Property, Plant. and Equipment*, requires that "revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date." The IPSASB therefore

concluded that the main implication of the adoption of current operational value as a branch of recoverable service amount is that entities on the current value model may have to bring forward revaluations where there is an indication that an asset might be impaired. As noted in paragraph BC20E, an impairment loss or reversal of an impairment loss of an asset does not necessitate the revaluation of the entire class of assets to which that item belongs.

Impact of impairments due to physical damage on current operational value of an asset

BC49. During the development of ED 90, the IPSASB had considered the impact of physical damage on an asset that is held for its service potential and is not operable at the measurement date. The IPSASB had acknowledged that if and when an asset is restored to its pre-impaired state, it may be able to resume the provision of services. However, following the impairment, the IPSASB was of the view that measurement of current operational value should reflect the physical condition of the asset at the measurement date. The IPSASB had proposed that if, due to its physical condition, the asset is inoperable, its current operational value is zero.

BC50. In some cases an asset that is incapable of delivering services will have a disposal value. In such cases, recoverable service amount will be represented by fair value less costs to sell.

Responses to ED 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement

BC51. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed updating the definition of recoverable service amount to the higher of fair value less costs to sell and current operational value; and removing depreciated replacement cost, restoration cost, and service units approaches from IPSAS 21. The proposal received strong support from constituents.

BC52. Some respondents did not support the proposal to replace 'value in use of a non-cash-generating asset' with 'current operational value' in the definition of recoverable service amount in Part 2 of ED 90 and noted:

(a) The applicability of current operational value in IPSAS should be evaluated as part of a comprehensive review of IPSAS 21; or

(b) The estimation of current operational value would be challenging because of jurisdiction-specific reasons.

BC53. The IPSASB considered the issues raised by these respondents and decided to proceed with ED 90 proposals to update recoverable service amount because:

(a) The limited-scope project on IPSAS 21 was a pre-commitment from the 2021 Mid-Period Work Program Consultation. A comprehensive review of IPSAS 21 is outside the scope of the Measurement Application Phase project; and

(b) Current operational value and value in use of a non-cash generating asset share many key characteristics, such as measuring the asset's remaining service potential.

BC54. Some respondents who supported the update to the definition of recoverable service amount suggested that guidance stating that the 'current operational value of a previously operational asset that no longer provides service potential at the measurement date is zero' should be removed in Part 2 of ED 90. The IPSASB noted that this guidance is prescriptive on how to apply current operational value principles in IPSAS 46. Additionally, adding guidance on determining COV in IPSAS 21 is inconsistent with why the IPSASB developed IPSAS 46. Consequently, the IPSASB decided to delete the guidance proposed in ED 90 from the Final Pronouncement.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 21.

…

Current Operational Value and Impairment

IG8. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date. In this Standard current operational value is one of two branches of recoverable service amount; fair value less costs to sell is the other branch.

IG9. Current operational value is an entity-specific value that represents an entry price. As indicated in paragraph 39B of this Standard, Appendix B of IPSAS 46 provides authoritative guidance on current operational value. This guidance is relevant to the application of current operational value as a branch of recoverable service amount and should be referred to when determining recoverable service amount.

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 21.

~~Measurement of Impairment Loss~~ [Deleted]

~~Note: In the following examples, it is assumed that the fair value less costs to sell of the asset tested for impairment is less than its value in use or is not determinable, unless otherwise indicated. Therefore, the asset's recoverable service amount is equal to its value in use. In these examples, the straight-line method of depreciation is used.~~

~~Depreciated Replacement Cost Approach~~ [Deleted]

~~Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment—Underutilized Mainframe Computer~~ [Deleted]

IE1. ~~In 1999, the City of Kermann purchased a new mainframe computer at a cost of CU10 million.[3] Kermann estimated that the useful life of the computer would be seven years, and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of excess CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet peak period deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2003 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at a price of CU500,000 that can provide the remaining service potential of the mainframe computer using the remaining applications.~~ [Deleted]

~~Footnote 3: In these examples monetary amounts are denominated in "currency units" (CU).~~

~~Evaluation of Impairment~~ [Deleted]

IE2. ~~The indication of impairment is the significant long-term change in the technological environment resulting in conversion of applications from the mainframe to other platforms, and therefore decreased usage of the mainframe computer. (Alternatively it can be argued that a significant decline in the extent of use of the mainframe indicates impairment.) Impairment loss is determined using the depreciated replacement cost approach as follows:~~ [Deleted]

~~**a**~~	~~**Acquisition cost, 1999**~~	~~**10,000,000**~~
	~~**Accumulated depreciation, 2003 (a × 4 ÷ 7)**~~	~~**5,714,286**~~
~~**b**~~	~~**Carrying amount, 2003**~~	~~**4,285,714**~~
~~**c**~~	~~**Replacement cost**~~	~~**500,000**~~
	~~**Accumulated depreciation (c × 4 ÷ 7)**~~	~~**285,714**~~
~~**d**~~	~~**Recoverable Service Amount**~~	~~**214,286**~~
	~~**Impairment loss (b - d)**~~	~~**4,071,428**~~

~~Near Cessation in Demand for the Services Provided by a Non-cash-Generating Asset—Underutilized Mainframe Software Application~~ [Deleted]

IE3. ~~In 1999, the City of Kermann purchased a software license for an application for its new mainframe computer for CU350,000. Kermann estimated that the useful life of the software would be seven years, and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software. By 2003, usage of the application had declined to 15 percent of its originally anticipated demand.~~

~~A license for a software application to replace the remaining service potential of the impaired software application costs CU70,000.~~ [Deleted]

~~Evaluation of Impairment~~ [Deleted]

IE4. ~~The indication of impairment is technological change, brought about by the loss of mainframe computer capacity.~~ [Deleted]

~~a~~	~~**Acquisition cost, 1999**~~	~~**350,000**~~
	~~**Accumulated depreciation, 2003 (a × 4 ÷ 7)**~~	~~**200,000**~~
~~b~~	~~**Carrying amount, 2003**~~	~~**150,000**~~
~~c~~	~~**Replacement cost**~~	~~**70,000**~~
	~~**Accumulated amortization (c × 4 ÷ 7)**~~	~~**40,000**~~
~~d~~	~~**Recoverable Service Amount**~~	~~**30,000**~~
	~~**Impairment loss (b - d)**~~	~~**120,000**~~

~~Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use—School Used as Warehouse~~ [Deleted]

IE5. ~~In 1997, Lunden School District constructed an elementary school at a cost of CU10 million. The estimated useful life of the school is fifty years. In 2003, the school is closed because enrollments in the district declined unexpectedly due to a population shift caused by the bankruptcy of a major employer in the area. The school is converted to use as a storage warehouse, and Lunden School District has no expectation that enrollments will increase in the future such that the building would be reopened for use as a school. The current replacement cost for a warehouse with the same storage capacity as the school is CU4.2 million.~~ [Deleted]

~~Evaluation of Impairment~~ [Deleted]

IE6. ~~Impairment is indicated, because the purpose for which the building is used has changed significantly from a place for instructing students to a storage facility, and this is not anticipated to change for the foreseeable future. An impairment loss using depreciated replacement cost approach would be determined as follows:~~ [Deleted]

~~a~~	~~**Historical cost, 1997**~~	~~**10,000,000**~~
	~~**Accumulated depreciation, 2003 (a × 6 ÷ 50)**~~	~~**1,200,000**~~
~~b~~	~~**Carrying amount, 2003**~~	~~**8,800,000**~~
~~c~~	~~**Replacement cost of a storage facility of similar capacity**~~	~~**4,200,000**~~
	~~**Accumulated depreciation (c × 6 ÷ 50)**~~	~~**504,000**~~
~~d~~	~~**Recoverable Service Amount**~~	~~**3,696,000**~~
	~~**Impairment loss (b - d)**~~	~~**5,104,000**~~

~~*Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use—School Partially Closed Due to Decline in Enrollment*~~ *[Deleted]*

IE7. ~~In 1983, the Lutton School District constructed a school at the cost of CU2.5 million. The entity estimated the school would be used for 40 years. In 2003, the enrollment declined from 1000 to 200 students as the result of population shift caused by the bankruptcy of a major employer in the area. The management decided to close the top two floors of the three-story school building. Lutton School District has no expectation that enrollments will increase in the future such that the upper stories would be reopened. The current replacement cost of the one-story school is estimated at CU1.3 million.~~ [Deleted]

~~Evaluation of Impairment~~ [Deleted]

IE8. ~~Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of a reduction in the number of students from 1000 to 200 students. The reduction in the extent of use is significant, and the enrollment is expected to remain at the reduced level for the foreseeable future. Impairment loss using a depreciated replacement cost approach would be determined as follows:~~ [Deleted]

~~**a**~~	~~**Acquisition cost, 1983**~~	~~**2,500,000**~~
	~~**Accumulated depreciation, 2003 (a × 20 ÷ 40)**~~	~~**1,250,000**~~
~~**b**~~	~~**Carrying amount, 2003**~~	~~**1,250,000**~~
~~**c**~~	~~**Replacement cost**~~	~~**1,300,000**~~
	~~**Accumulated depreciation (c × 20 ÷ 40)**~~	~~**650,000**~~
~~**d**~~	~~**Recoverable Service Amount**~~	~~**650,000**~~
	~~**Impairment loss (b - d)**~~	~~**600,000**~~

~~Restoration Cost Approach~~ [Deleted]

~~*Physical Damage—School Bus Damaged in Road*~~ *[Deleted]*

IE9. ~~In 1998, North District Primary School acquired a bus at the cost of CU200,000 to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 2003, the bus sustained damage in a road accident, requiring CU40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is CU250,000 in 2003.~~ [Deleted]

Evaluation of Impairment [Deleted]

IE10. ~~Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using the restoration cost approach would be determined as follows:~~ [Deleted]

~~**a**~~	~~**Acquisition cost, 1998**~~	~~**200,000**~~
	~~**Accumulated depreciation, 2003 (a × 5 ÷ 10)**~~	~~**100,000**~~
~~**b**~~	~~**Carrying amount, 2003**~~	~~**100,000**~~
~~**c**~~	~~**Replacement cost**~~	~~**250,000**~~
	~~**Accumulated depreciation (c × 5 ÷ 10)**~~	~~**125,000**~~
~~**d**~~	~~**Depreciated replacement cost (undamaged state)**~~	~~**125,000**~~

	~~**Less: restoration cost**~~	~~**40,000**~~
~~**e**~~	~~**Recoverable Service Amount**~~	~~**85,000**~~
	~~**Impairment loss (b - e)**~~	~~**15,000**~~

~~*Physical Damage—Building damaged by fire*~~ *[Deleted]*

IE11. ~~In 1984, the City of Moorland built an office building at a cost of CU50 million. The building was expected to provide service for 40 years. In 2003, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed, and structural repairs costing CU35.5 million are to be made to restore the office building to an occupiable condition. The replacement cost of a new office building is CU100 million.~~ [Deleted]

~~**Evaluation of Impairment**~~ **[Deleted]**

IE12. ~~Impairment is indicated because the office building has sustained physical damage due to the fire. Impairment loss using a restoration cost approach would be determined as follows:~~ [Deleted]

~~**a**~~	~~**Acquisition cost, 1984**~~	~~**50,000,000**~~
	~~**Accumulated depreciation, 2003 (a × 19 ÷ 40)**~~	~~**23,750,000**~~
~~**b**~~	~~**Carrying amount, 2003**~~	~~**26,250,000**~~
~~**c**~~	~~**Replacement cost (of a new building)**~~	~~**100,000,000**~~
~~**d**~~	~~**Accumulated depreciation (c × 19 ÷ 40)**~~	~~**47,500,000**~~
	~~**Depreciated replacement cost (undamaged)**~~	~~**52,500,000**~~
	~~**Less: restoration cost**~~	~~**35,500,000**~~
~~**e**~~	~~**Recoverable Service Amount**~~	~~**17,000,000**~~
	~~**Impairment loss (b - e)**~~	~~**9,250,000**~~

~~**Service Units Approach**~~ **[Deleted]**

~~*Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use—High-rise Building Partially Unoccupied for the Foreseeable Future*~~ *[Deleted]*

IE13. ~~In 1988, Ornong City Council constructed a 20-story office building for use by the Council in downtown Ornong at the cost of CU80 million. The building was expected to have a useful life of 40 years. In 2003, National Safety Regulations required that the top four stories of high rise buildings should be left unoccupied for the foreseeable future. The building has a fair value less costs to sell of CU45 million in 2003 after regulations came into force. The current replacement cost of a similar 20-story building is CU85 million.~~ [Deleted]

Evaluation of Impairment [Deleted]

IE14. ~~Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new National Safety Regulations. The reduction in the extent of use is significant, and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows:~~ [Deleted]

~~a~~	~~**Acquisition cost, 1988**~~	~~**80,000,000**~~
	~~**Accumulated depreciation, 2003 (a × 15 ÷ 40)**~~	~~**30,000,000**~~
~~b~~	~~**Carrying amount, 2003**~~	~~**50,000,000**~~
~~c~~	~~**Replacement cost (20-story building)**~~	~~**85,000,000**~~
	~~**Accumulated depreciation (c × 15 ÷ 40)**~~	~~**31,875,000**~~
~~d~~	~~**Depreciated replacement cost before adjustment for remaining service units**~~	~~**53,125,000**~~
~~e~~	~~**Value in Use of the building after the regulation came into force (d × 16 ÷ 20)**~~	~~**42,500,000**~~
~~f~~	~~**Fair value less costs to sell of the building after regulation came into force**~~	~~**45,000,000**~~
~~g~~	~~**Recoverable service amount (higher of e and f)**~~	~~**45,000,000**~~
	~~**Impairment loss (b - g)**~~	~~**5,000,000**~~

~~*Evidence from Internal Reporting—Higher Cost of Operating the Printing Machine*~~ *[Deleted]*

IE15. ~~In 1998, Country X Education Department purchased a new printing machine at a cost of CU40 million. The Department estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 2003, it was reported that an automated feature of the machine's function does not operate as expected, resulting in a 25 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is CU45 million in 2003.~~ [Deleted]

~~Evaluation of Impairment~~ [Deleted]

IE16. ~~Impairment is indicated by evidence from internal reporting that the service performance of the printing machine is worse than expected. Circumstances suggest that the decline in the service potential of the asset is significant and of a long-term nature. Impairment loss using a service units approach is determined as follows:~~ [Deleted]

~~a~~	~~**Acquisition cost, 1998**~~	~~**40,000,000**~~
	~~**Accumulated depreciation (a × 5 ÷ 10)**~~	~~**20,000,000**~~
~~b~~	~~**Carrying amount, 2003**~~	~~**20,000,000**~~
~~c~~	~~**Replacement cost**~~	~~**45,000,000**~~
	~~**Accumulated depreciation (c × 5 ÷ 10)**~~	~~**22,500,000**~~
~~d~~	~~**Depreciated replacement cost before adjustment for remaining service units**~~	~~**22,500,000**~~
~~e~~	~~**Recoverable Service Amount (d × 75%)**~~	~~**16,875,000**~~
	~~**Impairment loss (b - e)**~~	~~**3,125,000**~~

Measurement of Impairment Losses

Introduction and Assumptions

IE17. The following examples illustrate the measurement of impairment losses following the identification of the indications of impairment in paragraph 27. The indications of impairment apply to assets on both the historical cost model and the current value model for measurement subsequent to recognition. The examples cover both models.

IE18. In these examples:

(a) The straight-line method of depreciation is applied. For simplicity, there is no change to useful lives.

(b) Revaluations under the current value model are assumed to have been made with sufficient regularity for the carrying amount to not differ materially from that which would be determined using the current value at the reporting date.

Indication of Impairment (a): Cessation, or near cessation, of the demand or need for services provided by the asset—Near complete cessation in demand for incinerator following closure of general hospital.

Fact Pattern

IE19. Swansway Health Authority (HA) operates an incinerator for medical waste for medical facilities in its geographical area. The incinerator was constructed in 2017 at a cost of CU600,000, with an estimated useful life of 30 years. The main general hospital accounts for 95% of the waste processed by the incinerator.

IE20. In 2023 there is a national reorganization of secondary healthcare. This reorganization involves the closure of the general hospital, apart from accident and emergency services, and the centralization of general surgery and medical specialties in the new general hospital of neighboring Goosedown HA. Following this reorganization, there is a near complete cessation of demand for the incinerator. Swansway HA does not think that there is any prospect of demand returning to previous levels, as there are no alternative users of the incinerator.

IE21. Swansway HA has adopted the historical cost model for measurement subsequent to recognition.

Analysis

IE22. It is estimated that a smaller incinerator providing 5%-10% of the current capacity can be acquired for CU320,000, including necessary site-specific adaptations. There is a very limited market for incinerators of the type operated by Swansway HA and current operational value, using the cost approach, is therefore the determinant of recoverable service amount. There is no need to estimate fair value less costs to sell.

		CU000
A	Construction cost, 2017	600
	Accumulated depreciation (A × 6 ÷ 30)	120
B	Carrying amount, 2023	480
C	Recoverable Service Amount (Current Operational Value of incinerator with 5%-10% of current incinerator's capacity)	320
D	Impairment loss (B-C)	160

IE23. The carrying amount of the incinerator is reduced to CU320,000. The impairment loss of CU160,000 is taken to surplus/deficit.

Indication of impairment (b) Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates—Reduction in demand for educational support services following legislative change.

Fact Pattern

IE24. In 2004 Mullhall School District (SD) acquired an office building with four floors in a central city location in which to house educational support services for CU700,000. The building had an estimated useful life of 40 years. In 2020 there was a legislative change giving schools more budget flexibility and greater discretion over the procurement of these services. Many sought alternative provision leading to a decline in demand for services provided by Mullhal SD.

IE25. By 2023 demand for education support services was about 75% of the 2020 level. Mullhall SD does not foresee demand returning to previous levels. Mullhal SD estimates that the education support services, after the demand reduction, can be provided in a building with about 30% of the floor area of the current building. Mullhal SD has looked into the possibility of leasing out three floors of the building but decides that because the building needs to be secure for students and their families, this is not feasible. Mullhal SD therefore treats the building as a single unit of account.

IE26. Mullhall SD has adopted the current value model for measurement subsequent to recognition. Mullhall SD has a rolling program of revaluations. The next revaluation of the building is scheduled for 2025. Because of the indication of impairment, the revaluation is brought forward to 2023, so that the building can be tested for impairment.

Analysis

IE27. Because the office building is non-cash-generating and held for operational capacity it is measured at current operational value. The carrying amount in 2023 is CU500,000. No decision has been made to sell the building, so it is not in scope of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

IE28. There are no restrictions on the building's use. There is a buoyant market for commercial property with average sale prices having increased by 20% in the 2020-2023 period. Mullhal SD therefore considers that fair value less costs to sell is the relevant metric for determining recoverable service amount. There is no need to re-determine current operational value. Fair value less costs to sell is determined as CU2,000,000.

		CU000
A	Carrying Amount, 2023	500
B	Recoverable Service Amount (Fair Value less Costs to Sell)	2,000
C	Impairment Loss (B>A)	0

IE29. There is no impairment loss because recoverable service amount exceeds carrying amount. Although the asset's service potential has diminished, the resources embodied in the asset can be recovered through sale in an orderly market, which is legally permitted and feasible. Therefore, Mullhal SD continues to carry the building on its statement of financial position at CU500,000.

Indication of Impairment (b): Significant long-term changes with adverse effects on the entity have taken place during the reporting period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates—Occupancy changes to residential home for children due to regulatory change.

Fact Pattern

IE30. Blackwood City Council (CC) acquired a residential home for children in 2003. The residential home had an estimated useful life of 50 years. Until 2023 the home had a capacity of 100 children. In 2023 revised government regulations imposed restrictions on occupancy by residential home. As a result, the capacity was reduced to 50 children. Covenants restrict the use of the building to the provision of social services.

IE31. Blackwood CC has adopted the current value model for measurement subsequent to recognition. The carrying amount prior to the impairment indication in 2023 is CU1,800,000. Blackwood CC has a rolling program of revaluations. The next valuation of the residential home is scheduled for 2026. Because of the indication of impairment, the valuation is brought forward to 2023. A valuer's report indicates that Blackwood CC could acquire a residential building of similar age and location suitable for 50 children for CU1,000,000. Adaptations in order to meet regulatory requirements will cost a further CU200,000 making a total cost of CU1,200,000.

Analysis

IE32. Blackwood CC determines that, because of the covenants restricting usage of the building and the site, current operational value using the cost approach is the relevant measurement basis for determining recoverable service amount. Therefore, there is no need to determine fair value less costs to sell.

		CU000
A	Carrying Amount, 2023	1,800
B	Recoverable Service Amount (Current Operational Value after impairment testing)	1,200
C	Impairment Loss B-A	600

IE33. The carrying amount of the residential home in the statement of financial position is reduced to CU1,200,000. There is an impairment loss of CU600,000. Part of this impairment loss is debited to the revaluation reserve up to the level of previous revaluation gains. The remainder is debited to surplus/deficit.

Indication of impairment (c): Physical Damage—Bridge Damaged as a Result of Ship Colliding with Fabric of Infrastructure

Fact Pattern

IE34. Creech City Council constructed a road bridge spanning the Grand River in 1998. The construction cost of CU20,000,000 was largely financed by grants from the state and national governments. The bridge had an estimated useful life of fifty years. Creech City Council has adopted the historical cost model for measurement subsequent to recognition.

IE35. In 2023 three lanes out of four were closed due to structural damage after a ship collided with one of the supporting pillars. Creech City Council expects to repair the bridge in the upcoming year, and has allowed one lane of the bridge to remain open for use at the reporting date.

Analysis

IE36. At year end the recoverable service amount is estimated to be CU 5,000,000. It is not possible to sell the bridge so fair value less costs to sell is zero.

		CU000
A	Construction cost, 1998	20,000
	Accumulated depreciation, 2023 (A × 25 ÷ 50)	10,000
B	Carrying amount, 2023	10,000
C	Recoverable Service Amount (Current Operational Value after impairment testing)	5,000
D	Impairment loss (B-C)	5,000

IE37. There is an impairment loss of CU5,000. This is taken to surplus/deficit. The impairment loss may be fully or partially reversed in a subsequent measurement period when Creech City Council repairs the bridge. The effect of such an event should be recognized in the reporting period when the work takes place.

Indication of impairment (d): Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used—*School Used as Warehouse*

Fact Pattern

IE38. In 2017 Lunden School District (SD) constructed an elementary school at a cost of CU1,000.000. The estimated useful life of the school building was fifty years. In 2023, the school closed because enrolments in the district declined unexpectedly due to a population decrease caused by the bankruptcy of the major employer in the area. Following closure, the school was converted for use as a storage warehouse for educational materials. Restrictions prevent the sale of the building and site for non-educational purposes. Lunden SD has adopted the historical cost model for measurement subsequent to recognition. The carrying amount of the building in 2023 prior to conversion was CU880,000.

Analysis

IE39. Lunden SD does not expect enrolments to increase in the future and therefore does not anticipate the building reopening as a school. The estimated cost of a warehouse with the same storage capacity as the school using the cost approach is CU300,000. The warehouse has the same remaining useful life as the school. Because the building can only be used for educational purposes fair value less costs to sell is lower than current operational value.

		CU000
A	Acquisition cost, 2017	1,000
	Accumulated depreciation, 2023 (A × 6 ÷ 50)	120
B	Carrying amount, 2023	880
C	Recoverable Service Amount (Current Operational Value of warehouse with same storage capacity as school)	300
D	(d) Impairment loss (B-C)	580

IE40. There is an impairment loss of CU580,000. This is taken to surplus/deficit. The carrying amount of the building is reduced to CU300,000.

Indication of Impairment (e): A decision to halt the construction of the asset before it is complete or in a usable condition—*Halt to capital project to improve and integrate stations in mass transit system*

Fact Pattern

IE41. The Department of Transport (DoT) of Highside State Government operates the mass transit system for Metroland City, which includes an overground commuter railway and a subway network. There are two separate stations called 'Altgate' in Metroland City — for the overground railway and the subway. The two stations are not linked and have separate entrances 500 meters apart.

IE42. As the first phase of a broader longer-term program to integrate public transport in 2022, the DoT initiated a capital project to integrate the two stations so that passengers can transfer between overground and subway networks without changing stations. The project includes a new concourse area, escalators between the two levels, and a new air-conditioning system. The construction work in this phase is planned to take five years.

IE43. Highside State Government has adopted the historical cost model for measurement subsequent to recognition. As at 2023, assets of CU1,000,000 had been recognized for this project. In 2023 due to a sudden and severe financial crisis the program has to be terminated. At the reporting date there is no intention of the program resuming.

Analysis

IE44. As there is no intention to resume the construction works it is inappropriate to treat the program as deferred. Any resale value of the components of the construction works is estimated to be immaterial, so fair value less costs to sell is not relevant. The CU1,000,000 assets are written off to surplus/deficit.

Impairment Indicator (f): Evidence from Internal Reporting — Service performance of an asset is, or is expected to be, significantly worse than expected—*Printer producing less copies than originally estimated*

Fact Pattern

IE45. In 2019, Readam Education Department (ED) purchased a new printing machine in order to produce books for elementary school pupils. Readam ED has adopted the current value model for measurement subsequent to recognition. Readam ED has a rolling program of revaluations. The next revaluation is scheduled for 2024. This is brought forward because of the impairment indication. The carrying amount prior to the impairment indication was CU24,000.

IE46. At the time of purchase, Readam ED estimated that 40,000 copies of books would be printed annually over the estimated 10-year useful life of the machine. In 2023 an internal review, identified that an automated feature of the machine does not operate as expected, resulting in a projected 25 percent reduction in the machine's annual output level over the remaining five years of the useful life of the asset (30,000 copies annually). Repairing the printing machine is not feasible, because the parts are no longer available. The resale value is therefore negligible.

Analysis

IE47. Recoverable service amount is estimated by reference to the cost of a printing machine with the same output as the impaired asset (30.000 annual copies), rather than the cost of replacing the original asset (40,000 annual copies). Readam ED obtains quotes for a machine with an output of 30,000 annual copies. The cheapest quote for a printing machine that does not require adaptation is CU15,000.

		CU000
A	Carrying Amount in 2023	24
B	Recoverable Service Amount (Current Operational Value of printing machine with capacity to produce 30,000 annual copies)	15
C	Impairment Loss (A-B)	9

IE48. The carrying amount of the printer is reduced to CU15,000. There is an impairment loss of CU9,000. This is taken to surplus/deficit as there has not been any surplus arising from a prior revaluation.

COMPARISON WITH IAS 36

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 are as follows:

…

- ~~The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.~~ The recoverable service amount in IPSAS 21 is the highest of fair value less cost to sell and current operational value, while in IAS 36 the recoverable amount is the highest of fair value less cost to sell and value in use.

  …

AMENDMENT: PART 3 – DEFINITION OF ACCOUNTING ESTIMATES (IPSAS 3)

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

Paragraphs 7, 37, 39, 43, and 53 are amended. Paragraphs 37A, 37B, 39A, 59H and IG18-IG21 are added. Paragraphs IG14-IG17 are deleted. New headings are inserted before paragraphs 39, 41, and IG18 and new subheadings are inserted before paragraphs IG18 and IG20. New text is underlined and deleted text is struck through.

…

Definitions

7 **The following terms are used in this Standard with the meanings specified:**

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

~~A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.~~

…

~~Changes in~~ Accounting Estimates

37 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. ~~As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated.~~ Developing accounting estimates involves the use of judgments or assumptions ~~Estimation involves judgments~~ based on the latest available, reliable information. Examples of accounting estimates include ~~For example, estimates may be required of~~:

(a) Tax revenue due to government;

(b) A loss allowance for expected credit losses, applying IPSAS 41, Financial Instruments~~Bad debts arising from uncollected taxes~~;

(c) The net realizable value or current operational value of an item of inventory, applying IPSAS 12, Inventories and IPSAS 46, Measurement respectively ~~Inventory obsolescence~~;

(d) The fair value of an asset or liability, applying IPSAS 46~~financial assets or financial liabilities~~;

(e) The depreciation expense for an item of property, plant, and equipment, applying IPSAS 45, Property, Plant, and Equipment~~The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage completion of road construction~~; and

(f) A provision for ~~W~~warranty obligations, applying IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

37A. An entity uses estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying IPSAS 41), measurement techniques (for example, techniques used to

measure the fair value of an asset or liability applying IPSAS 46), and inputs to develop an accounting estimate.

37B. The term 'estimate' in IPSAS sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

…

Changes in Accounting Estimates

39. An entity may need to change an accounting estimate ~~may need revision~~ if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting ~~the revision of an~~ estimate does not relate to prior periods and is not the correction of an error.

39A. The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

Applying changes in accounting estimates

…

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of that ~~the~~ change ~~in estimate~~. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in a loss allowance for expected credit losses ~~the estimate of the amount of bad debts~~ affects only the current period's surplus or deficit, and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

…

Errors

…

Limitations of Retrospective Restatement

…

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing ~~revision~~ as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

…

Effective Date

…

59H **Paragraphs 7, 37, 39, 43, and 53 are amended, paragraphs 37A, 37B, and 39A are added by Part 3 of *Amendments to IPSAS Standard as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. An entity shall apply**

the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3.

…

Revision of IPSAS 3 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC20. The IPSASB reviewed the revisions to IAS 8, *Basis of Preparation of Financial Statements* (previously titled *Accounting Policies, Changes in Accounting Estimates and Errors*) included in *Definition of Accounting Estimates* (Amendments to IAS 8) issued by the IASB in February 2021, and the IASB's rationale for making these amendments as set out in their Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not adopting these amendments.

BC21. The IPSASB noted an inconsistency in terminology between the IASB and the IPSASB literature, specifically with the term 'measurement techniques'. The IPSASB decided to align the terminology in the IPSAS 3 improvement with IPSAS 46, *Measurement*, thus 'valuation techniques' in IAS 8 was replaced with 'measurement techniques' as used in IPSAS 46, and the umbrella term 'measurement techniques' in IAS 8 is not required in the improvements to IPSAS 3.

BC22. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed adding a definition of accounting estimates and related amendments consistent with the amendments in the IASB's *Definition of Accounting Estimates* (Amendments to IAS 8). The IPSASB decided to proceed with the amendments proposed in Part 3 of ED 90 because the guidance is expected to help entities in the public sector to distinguish between changes in accounting policies and changes in accounting estimates.

…

Implementation Guidance

This Implementation Guidance accompanies, but is not part of, IPSAS 3.

…

~~Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable~~ [Deleted]

IG14. ~~During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model.~~ [Deleted]

IG15. ~~In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.~~ [Deleted]

IG16. ~~Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.~~ [Deleted]

IG17. ~~Additional information:~~ [Deleted]

	~~CU~~
~~Property, plant and equipment~~	
~~Cost~~	~~25,000~~
~~Depreciation~~	~~(14,000)~~
~~Net book value~~	~~11,000~~
~~Prospective depreciation expense for 20X2 (old basis)~~	~~1,500~~
~~Some results of the engineering survey~~	
~~Valuation~~	~~17,000~~
~~Estimated residual value~~	~~3,000~~
~~Average remaining assets life (years)~~	~~7~~
~~Depreciation expense on existing property, plant and equipment for 20X2 (new basis)~~	~~2,000~~

~~Extracts from Notes to the Financial Statements~~

~~From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.~~

Applying the definition of accounting estimates—Fair value of an investment property

Fact pattern

IG18. Entity A owns an investment property that it accounts for by applying the current value model in IPSAS 16, Investment Property. Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a measurement technique consistent with the income approach described in IPSAS 46, Measurement.

IG19. However, because of changes in market conditions since the previous reporting period, Entity A changes the measurement technique it uses to a measurement technique consistent with the market approach described in IPSAS 46. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting period and, therefore, that IPSAS 46 permits such a change. Entity A has also concluded that the change in the measurement technique is not a correction of a prior period error.

Applying the definition of accounting estimates

IG20. The fair value of the investment property is an accounting estimate because:

(a) The fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a hypothetical sale or purchase transaction between market participants—accordingly, it cannot be observed directly and must instead be estimated.

(b) The fair value of the investment property is an output of a measurement technique used in applying the accounting policy (current value model).

(c) In developing its estimate of the fair value of the investment property, Entity A uses judgements and assumptions, for example, in:

(i) Selecting the measurement technique that is appropriate in the circumstances; and

(ii) Applying the measurement technique—developing the inputs that market participants would use in applying the measurement technique, such as information generated by market transactions involving comparable assets.

IG21 In this fact pattern, the change is in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value in the current value model—has not changed.

Amendments to Other IPSAS Standards

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraphs 120(p)(ii), 124(b)(iii), and AG91 are amended. Paragraph 126I is added. Subheading above paragraph AG94 is amended. New text is underlined and deleted text is struck through.

…

Disclosures

…

120. To meet the objective in paragraph 119, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

…

(p) For each acquisition in which the acquirer holds less than 100 percent of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:

…

(ii) For each non-controlling interest in an acquired operation measured at fair value, the measurement ~~valuation~~ technique(s) and significant inputs used to measure that value.

…

124. To meet the objective in paragraph 123, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

…

(b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

…

(iii) The measurement ~~valuation~~ techniques and key model inputs used to measure contingent consideration.

…

Effective Date and Transition

Effective Date

…

126I. **Paragraphs 120(p)(ii), 124(b)(iii), and AG91 are amended, and the subheading above paragraph AG94 is amended by Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 40.

…

Accounting for Acquisitions

Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)

…

Non-Controlling Interest in an Acquired Operation

…

AG91. This Standard allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other measurement ~~valuation~~ techniques.

…

Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using Measurement ~~Valuation~~ Techniques (see paragraph 87)

AG94. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value of the consideration transferred to measure goodwill, a loss or a gain on a bargain purchase (see paragraphs 85–87).

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 40.

…

Revision of IPSAS 40 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC96. The IPSASB replaced the term 'valuation techniques' with the term 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs AG124, AG130, AG135 and AG136 are amended. Paragraph 156I is added. New text is underlined and deleted text is struck through.

…

Effective Date

156I. **Paragraphs AG124, AG130, AG135, and AG136 are amended by Part 3 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity**

shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.

…

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 41.

…

Initial Measurement

Concessionary Loans

…

AG124 An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs AG152-AG153 of IPSAS 47. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in paragraphs AG144–AG155. Where an entity cannot determine fair value by reference to an active market, it uses a measurement ~~valuation~~ technique. Fair value using a measurement ~~valuation~~ technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see paragraph AG115).

…

Equity Instruments Arising from Non-Exchange Transactions

…

AG130. To the extent an equity instrument arises from the transaction, or component of the transaction, that is within the scope of this Standard, it is to be recognized initially at fair value in accordance with Paragraph 57. The equity instrument is to be measured subsequently in accordance with paragraphs 61–63. If the instrument does not have an active market, the entity shall consider measurement ~~valuation~~ techniques and inputs in paragraphs AG149–AG155 in determining its fair value.

…

Valuing Financial Guarantees Issued through a Non-Exchange Transaction

…

AG135. Where there is no active market for a directly equivalent guarantee contract; the entity considers whether a measurement ~~valuation~~ technique other than observation of an active market is available and provides a reliable measure of fair value. Such a measurement ~~valuation~~ technique may rely on mathematical models which consider financial risk. For example, National Government W guarantees a bond issue of Municipality X. As Municipality X has a government guarantee backing its bond issue, its bonds have a lower coupon than if they were not secured by a government guarantee. This is because the guarantee lowers the risk profile of the bonds for investors. The guarantee fee could be determined by using the credit spread between what the coupon rate would have been had the issue not been backed by a government guarantee and the rate with the guarantee in place. Where a fair value is obtainable either by observation of an active market or through another measurement ~~valuation~~ technique, the entity recognizes the financial guarantee at that fair value in the statement of financial position and recognizes an expense of an equivalent amount in the

statement of financial performance. When using a measurement ~~valuation~~ technique that is not based on observation of an active market an entity needs to satisfy itself that the output of any model is reliable and understandable.

AG136. If no reliable measure of fair value can be determined, either by direct observation of an active market or through another measurement ~~valuation~~ technique, an entity is required to measure the financial guarantee contract at the amount of the loss allowance determined in accordance with paragraphs 73 to 93.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

…

Revision of IPSAS 41 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC53. The IPSASB replaced the term 'valuation techniques' with the term 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

…

Implementation Guidance

This Implementation Guidance accompanies, but is not part of, IPSAS 41.

…

Fair Value (paragraphs 31–34)

…

IG15. IPSAS 30 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a measurement ~~valuation~~ technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with Paragraph 33(b). (Disclosure of comparative information is also required, but is not included in the following example).

…

Amendments to IPSAS 45, *Property Plant, and Equipment*

Paragraphs 79(a) and 81(d) are amended. Paragraph 87E is added. New text is underlined and deleted text is struck through.

…

Disclosure

…

Current Value Measurement

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

(a) For property, plant, and equipment that are measured at current operational value or fair value in the statement of financial position after initial recognition, the measurement ~~valuation~~ techniques and inputs used to develop those measurements.

…

81. To meet the objectives in paragraph 79, an entity shall disclose, at a minimum, the following information for each class of property, plant, and equipment (see paragraph 82 for information on determining appropriate classes of property, plant, and equipment for current value measurement disclosures) measured at current operational value or fair value in the statement of financial position after initial recognition:

…

(d) For 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 cost approach to a market approach or the use of an additional measurement ~~valuation~~ 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 significant 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.

…

Effective Date and Transition

Effective Date

…

85D. **Paragraphs 79(a) and 81(d) are amended by Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45.

…

Revision of IPSAS 45 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC91. The IPSASB replaced the term ‘valuation techniques’ with the term ‘measurement techniques’ for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

…

Amendments to IPSAS 46, *Measurement*

Paragraphs B13 is amended. Paragraph 56B is added. New text is underlined and deleted text is struck through.

…

Effective Date and Transition

Effective Date

…

56B. **Paragraph B13 is amended by Part 3 of ED 90, *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Appendix B

Current Operational Value

This Appendix is an integral part of IPSAS 46.

…

Measurement

…

The Amount the Entity would Pay

…

Observable Inputs

…

B13. When a price for an identical, or similar, asset is not observable, an entity measures current operational value using another measurement ~~valuation~~ technique that uses observable inputs, where feasible, such as when external resources are available and can be used.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 46.

…

Revision of IPSAS 46 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC104. The IPSASB replaced the term ‘valuation techniques’ with the term ‘measurement techniques’ for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

…

AMENDMENT: PART 4 – IMPROVEMENTS TO CURRENT VALUE MEASUREMENT DISCLOSURES

Amendments to IPSAS 16, *Investment Property*

Paragraphs 89A, and 89C(a)-89C(g) are amended. Paragraph 101N is added. New text is underlined and deleted text is struck through.

…

Disclosure

…

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) <u>in the statement of financial position after initial recognition</u>, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

…

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 IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) ~~For recurring and non-recurring fair value measurements, t~~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) …

(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 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:

…

Effective Date

101M. **Paragraphs 89A, and 89C(a)-89C(g) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement,* issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 16.

…

Revision of IPSAS 16 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC13. During the development of ED 90, the IPSASB proposed to remove the terms ‘recurring’ and ‘non-recurring’ to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC14. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed enhancing current value measurement disclosures by removing the terms ‘recurring and non-recurring’ across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of ‘recurring and non-recurring’ expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC15. The IPSASB noted that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC16. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

…

Amendments to IPSAS 27, *Agriculture*

Paragraphs 46A, and 46C(a)-46C(g) are amended. Paragraph 56L is added. New text is underlined and deleted text is struck through.

…

Disclosure

…

General

…

Current Value Measurement

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) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period**

…

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 IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) ~~For recurring and non-recurring fair value measurements, t~~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~~;

(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) …

(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:

…

Effective Date

56L. **Paragraphs 46A, and 46C(a)-46C(g) are amended by Part of 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Basis for Conclusions

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

…

Revision of IPSAS 27 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC19. During the development of ED 90, the IPSASB proposed to remove the terms ‘recurring’ and ‘non-recurring’ to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC20. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed enhancing current value measurement disclosures by removing the terms ‘recurring and non-recurring’ across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of ‘recurring and non-recurring’ expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC21. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis.

Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC22. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

…

Amendments to IPSAS 30, *Financial instruments: Disclosures*

Paragraphs 30A, and 30C(a)-30C(h) are amended. Paragraph 52O is added. New text is underlined and deleted text is struck through.

…

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) <u>in the statement of financial position after initial recognition</u>, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

…

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 IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) ~~For recurring and non-recurring fair value measurements, t~~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;

(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) …

(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:

…

Effective Date and Transition

Effective Date

…

52O. **Paragraphs 30A, and 30C(a)-30C(h) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 30.

…

Revision of IPSAS 30 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC14. During the development of ED 90, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC15. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC16. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC17. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 123A, and 123C(a)-123C(g) are amended. Paragraph 132Q is added. New text is underlined and deleted text is struck through.

…

Disclosure

General

…

…

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) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

…

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 IPSAS 46, Measurement) in the statement of financial position after initial recognition:

(a) ~~For recurring and non-recurring fair value measurements, t~~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 measurement. If there has been a change in measurement technique (e.g., changing from a market approach to 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) ….

(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).

…

Effective Date

…

132Q. **Paragraphs 123A, and 123C(a)-123C(g) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of* IPSAS 46, *Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Basis for Conclusions

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

…

Revision of IPSAS 31 as a result of Part 4 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC13. During the development of ED 90, the IPSASB proposed to remove the terms ‘recurring’ and ‘non-recurring’ to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC14. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed enhancing current value measurement disclosures

by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC15. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC16. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

Amendments to IPSAS 34, *Separate Financial Statements*

Paragraphs 23A, and 23C(a)-23C(h) are amended. Paragraph 32F is 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) <u>in the statement of financial position after initial recognition</u>, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

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 IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) ~~For recurring and non-recurring fair value measurements, t~~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) …

(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:

…

Effective Date

…

32F. **Paragraphs 23A, and 23C(a)-23C(h) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 34.

…

Revision of IPSAS 34 as a result of Part 4 *of Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC11. During the development of ED 90, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC12. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC13. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC14. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

…

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

Paragraphs 57A, and 57C(a)-57Cg) are amended. Paragraph 61F is added. New text is underlined and deleted text is struck through.

…

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) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

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 IPSAS 46, Measurement) in the statement of financial position after initial recognition:

(a) ~~For recurring and non-recurring fair value measurements, t~~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 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) …

(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:

…

Effective Date

…

61F. **Paragraphs 57A, and 57C(a)-57C(g) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 38.

…

Revision of IPSAS 38 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC15. During the development of ED 90, the IPSASB proposed to remove the terms ‘recurring’ and ‘non-recurring’ to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC16. In August 2024, the IPSASB published Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*, which proposed enhancing current value measurement disclosures by removing the terms ‘recurring and non-recurring’ across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of ‘recurring and non-recurring’ expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC17. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of ‘recurring’ in paragraphs that do not stipulate ‘in the statement of financial position after initial recognition’ could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC18. In responding to constituents’ comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

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