International

Public Sector

Accounting

Standards Board

Exposure Draft 45

March 2011

Comments are requested by

June 30, 2011

Proposed International Public Sector

Accounting Standard

Improvements to IPSASs 2011

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved for publication in March 2011 this Exposure Draft, *Improvements to IPSASs 2011*.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by June 30, 2011.**

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may be sent to stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPASB Technical Director at +1 (416) 204-3412, or mailed to:

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Copies of this Exposure Draft may be downloaded free-of-charge from the IFAC website at www.ifac.org.

ISBN:

Objective of the Exposure Draft

The objective of Part I of this Exposure Draft (ED) is to propose deletion of the Introduction section for those IPSASs which have an Introduction section. Part II of this ED proposes to insert objective paragraphs in those IPSASs which do not currently have an objective paragraph. Part III of this ED proposes general improvements to four IPSASs that relate to inconsistent references to standards, terminology and structure resulting from IPSASB's ongoing review of existing IPSASs.

Guide for Respondents

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

The Specific Matter for Comment requested in the Exposure Draft is provided below.

Specific Matter for Comment 1

Are there amendments that the IPSASB needs to consider in future *Improvements to IPSASs* projects?

March 2011

ED 45 IMPROVEMENTS TO IPSASs 2011

CONTENTS

IPSASs Addressed

Part I: Deletion of Introduction Paragraphs

1. The IPSASB is proposing to delete the Introduction section of each IPSAS which has one, i.e., 21 of 31 IPSASs. The reason for this proposal is that the Introduction section is non-authoritative, and the scope and style varies considerably between IPSASs. Additionally, there are ten IPSASs that do not have an Introduction. The Introduction section was originally included in IPSASs to serve various purposes including:

   (a) Summarizing the rationale for the IPSAS. However, the rationale for issuing each IPSAS should be clearly stated in an Objective paragraph;

   (b) Summarizing the content of the Standard. However, Introductions are non-authoritative and users should refer to the detailed requirements of the Standard;

   (c) Describing key features of the IPSAS. In some cases, this duplicates material in the Basis for Conclusions; and

   (d) Describing significant changes from previous requirements. These should be addressed, together with the rationale for such changes, in the Basis for Conclusions.

Part II: Insertion of Objective Paragraph

3. The IPSASB is proposing to add an Objective paragraph to the four IPSASs which do not currently include an Objective paragraph. The IPSASs affected are:

Standard
IPSAS 6, *Consolidated and Separate Financial Statements*
IPSAS 7, *Investments in Associates*
IPSAS 8, *Interests in Joint Ventures*
IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

Part III: General Improvements

4. The IPSASB is proposing to amend four IPSASs for the reasons set out below.

Standard	*Proposed Change*
IPSAS 16, *Investment Property*	Proposed deletion of references to exchanges of assets which lack commercial substance as the treatment of investment properties acquired through a non-exchange transaction is set out in paragraph 27 of the Standard. The equivalent paragraphs in IPSAS 31, *Intangible Assets* were omitted when IPSAS 31 was developed.
IPSAS 17, *Property, Plant, and Equipment*	Proposed deletion of references to exchanges of assets which lack commercial substance as the treatment of items of property, plant, and equipment acquired through a non-exchange transaction is set out in paragraph 27 of the Standard. The equivalent paragraphs in IPSAS 31, *Intangible Assets* were omitted when IPSAS 31 was developed.
	Proposed amendment to include reference to IPSAS 26, *Impairment of Cash-Generating Assets*, where appropriate.
	Proposed deletion of the final sentence in paragraph 83. The IPSASB use the term "revenue" in a broader sense than the IASB. The IPSASB's definition of revenue includes income and gains.
IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*	Proposed amendment to delete reference to insurance entities and to amend references to the exclusion of financial instruments within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement* from IPSAS 19.

	Proposed amendment to IG14 to update the example of a single guarantee to refer to IPSAS 29 which deals with financial guarantee contracts.
IPSAS 21, *Impairment of Non-Cash-Generating Assets*	Proposed amendment to include another indicator of impairment. IPSAS 26.25(e) includes as an indicator of impairment an asset where its useful life has been reassessed as finite rather than indefinite. IPSAS 21.27(d) does not have this indicator because it was added to IAS 36 in the revision the IASB issued in March 2004. At that stage, the IPSASB were in the process of finalizing IPSAS 21.

PART I: DELETION OF INTRODUCTION

The amendments in Part I shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged.

Part I: Deletion of Introduction	**Paragraph Numbers to be deleted**
IPSAS 1, *Presentation of Financial Statements*	IN1–IN23
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	IN1–IN20
IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*	IN1–IN6
IPSAS 6, *Consolidated and Separate Financial Statements*	IN1–IN19
IPSAS 7, *Investments in Associates*	IN1–IN18
IPSAS 8, *Interests in Joint Ventures*	IN1–IN17
IPSAS 12, *Inventories*	IN1–IN13
IPSAS 13, *Leases*	IN1–IN11
IPSAS 14, *Events After the Reporting Date*	IN1–IN6
IPSAS 16, *Investment Property*	IN1–IN12
IPSAS 17, *Property, Plant, and Equipment*	IN1–IN17
IPSAS 22, *Disclosure of Financial Information about the General Government Sector*	IN1–IN8
IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*	IN1–IN5
IPSAS 24, *Presentation of Budget Information in Financial Statements*	IN1–IN9
IPSAS 25, *Employee Benefits*	IN1–IN11
IPSAS 26, *Impairment of Cash-Generating Assets*	IN1–IN14
IPSAS 27, *Agriculture*	IN1–IN6
IPSAS 28, *Financial Instruments: Presentation*	IN1–IN19
IPSAS 29, *Financial Instruments: Recognition and Measurement*	IN1–IN15
IPSAS 30, *Financial Instruments: Disclosures*	IN1–IN8
IPSAS 31, *Intangible Assets*	IN1–IN4

PART II: INSERTION OF OBJECTIVE PARAGRAPH

The amendments in Part II shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged.

Amendments to International Public Sector Accounting Standard 6, *Consolidated and Separate Financial Statements*

A new paragraph 1 is inserted and existing paragraph 1 is renumbered to 1A (new text is underlined).

Objective

1. The objective of this Standard is to prescribe the accounting treatment for a controlling entity in the preparation and presentation of consolidated financial statements for the entities under its control. This Standard also prescribes the accounting requirements for controlled entities, jointly controlled entities, and associates when an entity presents separate financial statements.

Scope

1A. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.**

Amendments to International Public Sector Accounting Standard 7, *Investments in Associates*

A new paragraph 1 is inserted and existing paragraph 1 is renumbered to 1A (new text is underlined).

<u>Objective</u>

<u>1.</u> <u>The objective of this Standard is to prescribe the accounting treatment for an investor in accounting for investments in associates in its consolidated financial statements and separate financial statements (where prepared).</u>

Scope

1<u>A</u>. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting by an investor for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure. However, it does not apply to investments in associates held by:**

…

Amendments to International Public Sector Accounting Standard 8, *Interests in Joint Ventures*

A new paragraph 1 is inserted and existing paragraph 1 is renumbered to 1A (new text is underlined).

<u>Objective</u>

<u>1.</u> <u>The objective of this Standard is to prescribe the accounting treatment for a venturer in accounting for interests in joint ventures in its consolidated financial statements and separate financial statements (where prepared).</u>

Scope

1<u>A</u>. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

…

Amendments to International Public Sector Accounting Standard 10, *Financial Reporting in Hyperinflationary Economies*

A new paragraph 1 is inserted and existing paragraph 1 is renumbered to 1A (new text is underlined).

<u>Objective</u>

<u>1.</u> <u>The objective of this Standard is to prescribe the accounting treatment in the consolidated and individual financial statements of an entity in accounting for an entity whose functional currency is the currency of a hyperinflationary economy. The Standard also specifies the accounting treatment where the economy ceases to be hyperinflationary.</u>

Scope

1<u>A</u>. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to the primary financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.**

PART III: GENERAL IMPROVEMENTS

Amendments to International Public Sector Accounting Standard 16, *Investment Property*

Introduction[1] paragraph IN10, paragraph 36 and Comparison with IAS 40 are amended (new text is underlined and deleted text is struck through). Paragraph 37 is deleted and paragraph 101B is inserted.

Introduction

IN10. The Standard requires an entity to measure investment property acquired in an asset exchange transaction at fair value unless ~~the transaction lacks commercial substance, or~~ the fair value of neither the asset given up nor the asset received can be reliably measured. Previously, IPSAS 16 did not contain requirements with regard to the accounting treatment for asset exchange transactions (see paragraphs 36~~–~~ and 38).

Measurement at Recognition

…

36. One or more investment properties 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 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 investment property is measured at fair value unless ~~(a) the exchange transaction lacks commercial substance or (b)~~ the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

37. [Deleted] ~~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 entity-specific value of 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 fair value of the assets exchanged.~~

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[1] This amendment will be unnecessary if the proposal in Part I of this ED to delete the Introduction sections is agreed.

~~For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.~~

Effective Date

101B. **Paragraph 37 was deleted and paragraph 36 was amended by *Improvements to IPSASs 2011* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendments for a period beginning before MM DD, YYYY, it shall disclose that fact.**

Comparison with IAS 40

- IAS 40 includes guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 16 does not include this guidance as the treatment of investment properties acquired through a non-exchange transaction is set out in paragraph 27 of the Standard.

Amendments to International Public Sector Accounting Standard 17, *Property, Plant, and Equipment*

Introduction[2] paragraphs IN5 and IN9, paragraphs 38, 79, 81, 83, 88 and 93, and Comparison with IAS 16 are amended (new text is underlined and deleted text is struck through). Paragraph 39 is deleted and paragraph 107C is inserted.

Introduction

IN5. In paragraph 13:

…

- ~~The Standard defines the term "entity-specific value," which refers to "the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability." This term is used where relevant in determining whether an asset exchange transaction has commercial substance. Guidance on how to judge whether an asset exchange transaction has commercial substance is also provided (see paragraphs 38–40). Previously, IPSAS 17 did not contain this definition and the related guidance.~~

IN9. The Standard requires an entity to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless~~: the exchange transaction lacks commercial substance; or~~ the fair value of neither the asset given up nor the asset received can be reliably measured (see paragraphs 38 ~~to~~ <u>and </u>40). Previously, IPSAS 17 divided asset exchange transactions into exchanges between similar assets and exchanges between dissimilar assets. The different categories of exchange were subject to different accounting treatments. For exchange of similar assets, the cost of the asset received was the carrying amount of the asset given up. For exchange of dissimilar assets, the cost was the fair value of the asset given up adjusted by the amount of any cash or cash equivalent transferred.

2 This amendment will be unnecessary if the proposal in Part I of this ED to delete the Introduction sections is agreed.

Measurement at Recognition

Measurement of Cost

…

38. 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 fair value unless ~~(a) the exchange transaction lacks commercial substance, or (b)~~ the fair 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 fair value, its cost is measured at the carrying amount of the asset given up.

39. [Deleted] ~~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 entity-specific value of 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 fair value of the assets exchanged.~~

    ~~For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.~~

…

Impairment

79. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. ~~That Standard explains~~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

…

81. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction 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 <u>or IPSAS 26, as appropriate</u>;

Derecognition

…

83. **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 13 requires otherwise on a sale and leaseback). ~~Gains shall not be classified as revenue.~~**

Disclosure

88. **The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:**

    …

    (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

    …

        (iv) **Increases or decreases resulting from revaluations under paragraphs 44, 54, and 55 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 <u>or IPSAS 26, as appropriate</u>;**

        (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 <u>or IPSAS 26, as appropriate</u>;**

        (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 <u>or IPSAS 26, as appropriate</u>;**

    ...

93. In accordance with IPSAS 21 <u>and IPSAS 26</u>, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 88(e)(iv)–(vi).

Effective Date

107C. **Paragraph 39 was deleted and paragraphs 38, 79, 81, 83, 88 and 93 were amended by *Improvements to IPSASs 2011* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendments for a period beginning before MM DD, YYYY, it shall disclose that fact.**

Comparison with IAS 16

- IAS 16 includes guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 17 does not include this guidance as the treatment of an item of property, plant, and equipment acquired through a non-exchange transaction is set out in paragraph 27 of the Standard.

Amendments to International Public Sector Accounting Standard 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 1 and 4 are amended (new text is underlined and deleted text is struck through). Paragraph 5 is deleted and paragraph 111A is inserted.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**

   (a) **Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits;**

   (b) <u>[Deleted]</u>~~**Those resulting from financial instruments that are carried at fair value;**~~

   (c) **Those resulting from executory contracts, other than where the contract is onerous, subject to other provisions of this paragraph;**

   (d) <u>**Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts**</u>~~**Those arising in insurance entities from contracts with policyholders;**~~

   …

4. This Standard <u>does not apply</u> ~~applies~~ to financial instruments (including guarantees) that are <u>within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*</u> ~~not carried at fair value~~.

5. <u>[Deleted]</u>~~This Standard applies to provisions, contingent liabilities, and contingent assets of insurance entities other than those arising from contracts with policyholders.~~

Effective Date

<u>111A.</u> <u>**Paragraph 5 was deleted and paragraphs 1 and 4 were amended by *Improvements to IPSASs 2011* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact.**</u>

Implementation Guidance

…

A Single Guarantee

IG14. During 2004, a provincial government gives a guarantee of certain borrowings of a private sector operator providing public services for a fee, whose financial condition at that time is sound. During 2005, the financial condition of the operator deteriorates and, at June 30, 2005, the operator files for protection from its creditors.

This contract meets the definition of a financial guarantee contract in IPSAS 29, except those where the issuer elects to treat such contracts as insurance contracts in accordance with the relevant international or national accounting standard dealing with insurance contracts. The following is an example of an accounting policy that complies with the requirements in IPSAS 29 for financial guarantee contracts within the scope of IPSAS 29.

Analysis

(a) At December 31, 2004

…

Conclusion

The guarantee is recognized at fair value. ~~No provision is recognized (see paragraphs 22 and 31). The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (see paragraphs 100 and 109).~~

Analysis

(a) At December 31, 2005

Conclusion

The guarantee is subsequently measured at the higher of (a) ~~A provision is recognized for~~ the best estimate of the obligation (see paragraphs 22, 31 and 109), and (b) the amount initially recognized less, when appropriate, cumulative amortization in accordance with IPSAS 9, *Revenue from Exchange Transactions*.

~~Note: This example deals with a single guarantee. If an entity has a portfolio of similar guarantees, it will assess that portfolio as a whole in determining whether an outflow of resources embodying economic benefits or service potential is probable (see paragraph 32). Where an entity gives guarantees in exchange for a fee, revenue is recognized under IPSAS 9, Revenue from Exchange Transactions.~~

Amendments to International Public Sector Accounting Standard 21, *Impairment of Non-Cash-Generating Assets*

Paragraph 27 is amended (new text is underlined and deleted text is struck through). Paragraph 82B is inserted.

Identifying an Asset that may be Impaired

…

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

…

Internal sources of information

…

(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. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, ~~or~~ plans to dispose of an asset before the previously expected date <u>and reassessing the useful life of an asset as finite rather than indefinite</u>;**

…

Effective Date

<u>82B. **Paragraph 27 was amended by *Improvements to IPSASs 2011* issued in Month 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact.**</u>

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