International Public Sector Accounting Standards Board®

Handbook of International Public Sector Accounting Pronouncements

2017 Edition
Volume II

IPSAS®

International Federation of Accountants®
529 Fifth Avenue
New York, New York 10017 USA

This publication was published by the International Federation of Accountants (IFAC®). Its mission is to serve the public interest and strengthen the accountancy profession by supporting the development of high-quality international standards, promoting the adoption and implementation of these standards, building the capacity of professional accountancy organizations, and speaking out on public interest issues.

ISBN: 978-1-60815-339-8

Published by:

International Federation of Accountants®

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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IPSAS 30—FINANCIAL INSTRUMENTS: DISCLOSURES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures* published by the International Accounting Standards Board (IASB). Extracts from IFRS 7 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

The approved text of the International Financial Reporting Standards (IFRSs) is that published by the IASB in the English language, and copies may be obtained directly from IFRS Publications Department, First Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom.

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IPSAS 30—FINANCIAL INSTRUMENTS: DISCLOSURES

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 30, *Financial Instruments: Disclosures* was issued in January 2010.

Since then, IPSAS 30 has been amended by the following IPSASs:

- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)
- IPSAS 38, *Disclosure of Interests in Other Entities* (issued January 2015)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (issued January 2015)
- *Improvements to IPSASs 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 30

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	Improvements to IPSASs October 2011
3	Amended	IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016
6	Deleted	The Applicability of IPSASs April 2016
7	Deleted	The Applicability of IPSASs April 2016
52A	New	IPSAS 33 January 2015
52B	New	IPSAS 38 January 2015 IPSAS 37 January 2015 IPSAS 35 January 2015

Paragraph Affected	How Affected	Affected By
52C	New	Improvements to IPSASs April 2016
52D	New	The Applicability of IPSASs April 2016
52E	New	IPSAS 39 July 2016
53	Amended	IPSAS 33 January 2015
AG6	Amended	IPSAS 38 January 2015

IPSAS 30—FINANCIAL INSTRUMENTS: DISCLOSURES

CONTENTS

International Public Sector Accounting Standard 30, *Financial Instruments: Disclosures*, is set out in paragraphs 1–54. All the paragraphs have equal authority. IPSAS 30 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:

   (a) The significance of financial instruments for the entity's financial position and performance; and

   (b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

2. The principles in this Standard complement the principles for recognizing, measuring, and presenting financial assets and financial liabilities in IPSAS 28, *Financial Instruments: Presentation* and IPSAS 29, *Financial Instruments: Recognition and Measurement.*

Scope

3. **This Standard shall be applied by all entities to all types of financial instruments, except:**

   (a) **Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* or IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35, or IPSAS 37 require or permit an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures unless the derivative meets the definition of an equity instrument in IPSAS 28.**

   (b) **Employers' rights and obligations arising from employee benefit plans, to which IPSAS 39, *Employee Benefits* applies.**

   (c) **Rights and obligations arising under insurance contracts. However, this Standard applies to:**

      (i) **Derivatives that are embedded in insurance contracts if IPSAS 29 requires the entity to account for them separately; and**

      (ii) **An issuer of financial guarantee contracts if the issuer applies IPSAS 29 in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance**

contracts if the issuer elects to apply those standards in recognizing and measuring them.

In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.

(d) **Financial instruments, contracts, and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payment applies, except for contracts within the scope of paragraphs 4–6 of IPSAS 29, to which that Standard applies.**

(e) **Instruments that are required to be classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28.**

4. This Standard applies to recognized and unrecognized financial instruments. Recognized financial instruments include financial assets and financial liabilities that are within the scope of IPSAS 29. Unrecognized financial instruments include some financial instruments that, although outside the scope of IPSAS 29, are within the scope of this Standard (such as some loan commitments).

5. This Standard applies to contracts to buy or sell a non-financial item that are within the scope of IPSAS 29 (see paragraphs 4–6 of IPSAS 29).

6. [Deleted]

7. [Deleted]

Definitions

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

<u>Credit risk</u> is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

<u>Currency risk</u> is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

<u>Interest rate risk</u> is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

<u>Liquidity risk</u> is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term trade payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

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 factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

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.

Classes of Financial Instruments and Level of Disclosure

9. When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Significance of Financial Instruments for Financial Position and Financial Performance

10. **An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.**

Statement of Financial Position

Categories of Financial Assets and Financial Liabilities

11. The carrying amounts of each of the following categories, as defined in IPSAS 29, shall be disclosed either in the statement of financial position or in the notes:

    (a) Financial assets at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition, and (ii) those classified as held-for-trading in accordance with IPSAS 29;

    (b) Held-to-maturity investments;

(c) Loans and receivables;

(d) Available-for-sale financial assets;

(e) Financial liabilities at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition, and (ii) those classified as held-for-trading in accordance with IPSAS 29; and

(f) Financial liabilities measured at amortized cost.

Financial Assets or Financial Liabilities at Fair Value through Surplus or Deficit

12. If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through surplus or deficit, it shall disclose:

(a) The maximum exposure to credit risk (see paragraph 43(a)) of the loan or receivable (or group of loans or receivables) at the end of the reporting period.

(b) The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

(c) The amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:

(i) As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or

(ii) Using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate, or index of prices or rates.

(d) The amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

13. If the entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 10 of IPSAS 29, it shall disclose:

(a) The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:

(i) As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix A, paragraph AG4); or

(ii) Using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate, or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund.

(b) The difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

14. The entity shall disclose:

(a) The methods used to comply with the requirements in paragraphs 12(c) and 13(a).

(b) If the entity believes that the disclosure it has given to comply with the requirements in paragraph 12(c) or 13(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Reclassification

15. If the entity has reclassified a financial asset (in accordance with paragraphs 60–63 of IPSAS 29) as one measured:

(a) At cost or amortized cost, rather than at fair value; or

(b) At fair value, rather than at cost or amortized cost;

it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.

16. If the entity has reclassified a financial asset out of the fair value through surplus or deficit category in accordance with paragraph 55 or 57 of IPSAS 29 or out of the available-for-sale category in accordance with paragraph 58 of IPSAS 29, it shall disclose:

(a) The amount reclassified into and out of each category;

(b) For each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;

(c) If a financial asset was reclassified in accordance with paragraph 55 of IPSAS 29, the rare situation, and the facts and circumstances indicating that the situation was rare;

(d) For the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognized in surplus or deficit or in net assets/equity in that reporting period and in the previous reporting period;

(e) For each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognized in surplus or deficit or in net assets/ equity if the financial asset had not been reclassified, and the gain, loss, revenue, and expense recognized in surplus or deficit; and

(f) The effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

Derecognition

17. An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 17–39 of IPSAS 29). The entity shall disclose for each class of such financial assets:

(a) The nature of the assets;

(b) The nature of the risks and rewards of ownership to which the entity remains exposed;

(c) When the entity continues to recognize all of the assets, the carrying amounts of the assets, and of the associated liabilities; and

(d) When the entity continues to recognize the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognize, and the carrying amount of the associated liabilities.

Collateral

18. An entity shall disclose:

(a) The carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 39(a) of IPSAS 29; and

(b) The terms and conditions relating to its pledge.

19. **When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:**

    (a) **The fair value of the collateral held;**

    (b) **The fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and**

    (c) **The terms and conditions associated with its use of the collateral.**

Allowance Account for Credit Losses

20. **When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g., an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.**

Compound Financial Instruments with Multiple Embedded Derivatives

21. **If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 33 of IPSAS 28) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.**

Defaults and Breaches

22. **For loans payable recognized at the end of the reporting period, an entity shall disclose:**

    (a) **Details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;**

    (b) **The carrying amount of the loans payable in default at the end of the reporting period; and**

    (c) **Whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorized for issue.**

23. **If, during the period, there were breaches of loan agreement terms other than those described in paragraph 22, an entity shall disclose the same information as required by paragraph 22 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).**

Statement of Financial Performance

Items of Revenue, Expense, Gains, or Losses

24. An entity shall disclose the following items of revenue, expense, gains, or losses either in the statement of financial performance or in the notes:

    (a) Net gains or net losses on:

        (i) Financial assets or financial liabilities at fair value through surplus or deficit, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with IPSAS 29;

        (ii) Available-for-sale financial assets, showing separately the amount of gain or loss recognized in net assets/equity during the period and the amount reclassified from net assets/equity and recognized directly in surplus or deficit for the period;

        (iii) Held-to-maturity investments;

        (iv) Loans and receivables; and

        (v) Financial liabilities measured at amortized cost;

    (b) Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through surplus or deficit;

    (c) Fee revenue and expense (other than amounts included in determining the effective interest rate) arising from:

        (i) Financial assets or financial liabilities that are not at fair value through surplus or deficit; and

        (ii) Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;

    (d) Interest revenue on impaired financial assets accrued in accordance with paragraph AG126 of IPSAS 29; and

    (e) The amount of any impairment loss for each class of financial asset.

Other Disclosures

Accounting Policies

25. In accordance with paragraph 132 of IPSAS 1, an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge Accounting

26. An entity shall disclose the following separately for each type of hedge described in IPSAS 29 (i.e., fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):

    (a) A description of each type of hedge;

    (b) A description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and

    (c) The nature of the risks being hedged.

27. For cash flow hedges, an entity shall disclose:

    (a) The periods when the cash flows are expected to occur and when they are expected to affect surplus or deficit;

    (b) A description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

    (c) The amount that was recognized in net assets/equity during the period;

    (d) The amount that was reclassified from net assets/equity and included in surplus or deficit for the period, showing the amount included in each line item in the statement of financial performance; and

    (e) The amount that was removed from net assets/equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

28. An entity shall disclose separately:

    (a) In fair value hedges, gains or losses:

        (i) On the hedging instrument; and

        (ii) On the hedged item attributable to the hedged risk.

    (b) The ineffectiveness recognized in surplus or deficit that arises from cash flow hedges; and

    (c) The ineffectiveness recognized in surplus or deficit that arises from hedges of net investments in foreign operations.

Fair Value

29. Except as set out in paragraph 35 for each class of financial assets and financial liabilities (see paragraph 9), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

30. In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.

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.

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.

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

    (a) The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 32.

    (b) Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.

(c) For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and a description of where they are presented in the statement of financial performance;

(ii) Total gains or losses recognized in net assets/equity;

(iii) Purchases, sales, issues, and settlements (each type of movement disclosed separately); and

(iv) Transfers into or out of Level 3 (e.g., transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant 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.

34. If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG106–AG112 of IPSAS 29). 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 AG108 of IPSAS 29 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:

(a) Its accounting policy for recognizing that difference in surplus or deficit to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG109 of IPSAS 29); 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.

35. Disclosures of fair value are not required:

(a) When the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) For an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IPSAS 29 because its fair value cannot be measured reliably; and

(c) For a contract containing a discretionary participation feature if the fair value of that feature cannot be measured reliably.

36. In the cases described in paragraph 35(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgments about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

(a) The fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;

(b) A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;

(c) Information about the market for the instruments;

(d) Information about whether and how the entity intends to dispose of the financial instruments; and

(e) If financial instruments whose fair value previously could not be reliably measured are derecognized, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognized.

Concessionary Loans

37. Concessionary loans are granted by entities on below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. For concessionary loans granted an entity shall disclose:

(a) A reconciliation between the opening and closing carrying amounts of the loans, including:

  (i) Nominal value of new loans granted during the period;

  (ii) The fair value adjustment on initial recognition;

  (iii) Loans repaid during the period;

  (iv) Impairment losses recognized;

  (v) Any increase during the period in the discounted amount arising from the passage of time; and

  (vi) Other changes.

(b) Nominal value of the loans at the end of the period;

(c) The purpose and terms of the various types of loans; and

(d) Valuation assumptions.

Nature and Extent of Risks Arising from Financial Instruments

38. **An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.**

39. The disclosures required by paragraphs 40–49 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk, and market risk.

Qualitative Disclosures

40. For each type of risk arising from financial instruments, an entity shall disclose:

  (a) The exposures to risk and how they arise;

  (b) Its objectives, policies, and processes for managing the risk and the methods used to measure the risk; and

  (c) Any changes in (a) or (b) from the previous period.

Quantitative Disclosures

41. For each type of risk arising from financial instruments, an entity shall disclose:

  (a) Summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IPSAS 20, *Related Party Disclosures*), for example, the entity's governing body or chief executive officer.

(b) The disclosures required by paragraphs 43–49, to the extent not provided in (a), unless the risk is not material (see paragraphs 45–47 of IPSAS 1 for a discussion of materiality).

(c) Concentrations of risk if not apparent from (a) and (b).

42. If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit Risk

43. An entity shall disclose by class of financial instrument:

(a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g., netting agreements that do not qualify for offset in accordance with IPSAS 28);

(b) In respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;

(c) Information about the credit quality of financial assets that are neither past due nor impaired; and

(d) The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Financial Assets that are Either Past Due or Impaired

44. An entity shall disclose by class of financial asset:

(a) An analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;

(b) An analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and

(c) For the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Collateral and Other Credit Enhancements Obtained

45. When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g., guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:

(a) The nature and carrying amount of the assets obtained; and

(b) When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity Risk

46. An entity shall disclose:

(a) A maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) A maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph AG14).

(c) A description of how it manages the liquidity risk inherent in (a) and (b).

Market Risk

Sensitivity Analysis

47. Unless an entity complies with paragraph 48, it shall disclose:

(a) A sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit and net assets/equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) The methods and assumptions used in preparing the sensitivity analysis; and

(c) Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

48. If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g., interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 47. The entity shall also disclose:

(a) An explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(b) An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other Market Risk Disclosures

49. When the sensitivity analyses disclosed in accordance with paragraph 47 or 48 are unrepresentative of a risk inherent in a financial instrument (e.g., because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

Effective Date and Transition

50. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2013, it shall disclose that fact.**

51. **An entity shall not apply this Standard before January 1, 2013, unless it also applies IPSAS 28 and IPSAS 29.**

52. If an entity applies this Standard for annual periods beginning before January 1, 2013, it need not present comparative information for the disclosures required by paragraphs 38–49 about the nature and extent of risks arising from financial instruments.

52A. **Paragraph 53 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

52B. **IPSAS 35, *Consolidated Financial Statements*, IPSAS 37, *Joint Arrangements*, and IPSAS 38, *Disclosures of Interests in Other Entities,* issued in January 2015, amended paragraphs 3(a) and AG6. An entity shall apply that amendment when it applies IPSAS 35, IPSAS 37 and IPSAS 38.**

52C. **Paragraph AG7 was amended by *Improvements to IPSASs 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

52D. **Paragraphs 6 and 7 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

52E. **Paragraph 3 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

53. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Withdrawal and Replacement of IPSAS 15 (2001)

54. This Standard and IPSAS 28 supersede IPSAS 15, *Financial Instruments: Disclosure and Presentation* issued in 2001. IPSAS 15 remains applicable until IPSAS 28 and IPSAS 30 are applied or become effective, whichever is earlier.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 30.

Classes of Financial Instruments and Level of Disclosure (paragraph 9)

AG1. Paragraph 9 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 9 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IPSAS 29 (which determine how financial instruments are measured and where changes in fair value are recognized).

AG2. In determining classes of financial instrument, an entity shall, at a minimum:

(a) Distinguish instruments measured at amortized cost from those measured at fair value.

(b) Treat as a separate class or classes those financial instruments outside the scope of this Standard.

AG3. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

Significance of Financial Instruments for Financial Position and Financial Performance

Financial Liabilities at Fair Value through Surplus or Deficit (paragraphs 13 and 14)

AG4. If an entity designates a financial liability as at fair value through surplus or deficit, paragraph 13(a) requires it to disclose the amount of change in the fair value of the financial liability that is attributable to changes in the liability's credit risk. Paragraph 13(a)(i) permits an entity to determine this amount as the amount of change in the liability's fair value that is not attributable to changes in market conditions that give rise to market risk. If the only relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, this amount can be estimated as follows:

(a) First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.

(b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period, and (ii) the instrument-specific component of the internal rate of return as determined in (a).

(c) The difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.

This example assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in interest rates are not significant. If the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be disclosed in accordance with paragraph 13(a).

Other Disclosure—Accounting Policies (paragraph 25)

AG5. Paragraph 25 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(a) For financial assets or financial liabilities designated as at fair value through surplus or deficit:

   (i) The nature of the financial assets or financial liabilities the entity has designated as at fair value through surplus or deficit;

   (ii) The criteria for so designating such financial assets or financial liabilities on initial recognition; and

(iii) How the entity has satisfied the conditions in paragraph 10, 13, or 14 of IPSAS 29 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through surplus or deficit in IPSAS 29, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through surplus or deficit in IPSAS 29, that disclosure includes a narrative description of how designation at fair value through surplus or deficit is consistent with the entity's documented risk management or investment strategy.

(b) The criteria for designating financial assets as available for sale.

(c) Whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 40 of IPSAS 29).

(d) When an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:

(i) The criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and

(ii) The criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 20).

(e) How net gains or net losses on each category of financial instrument are determined (see paragraph 24(a)), for example, whether the net gains or net losses on items at fair value through surplus or deficit include interest or revenue from dividends or similar distributions.

(f) The criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 24(e)).

(g) When the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms (see paragraph 43(d)).

(h) For financial guarantee contracts issued through a non-exchange transaction, where no fair value can be determined and a provision is recognized in accordance with IPSAS 19, *Provisions, Contingent*

Liabilities and Contingent Assets, disclosure of the circumstances that result in a provision being recognized.

Paragraph 137 of IPSAS 1 also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49)

AG6. The disclosures required by paragraphs 38–49 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete. The use of such cross-referencing may be subject to jurisdictional restrictions.

Quantitative Disclosures (paragraph 41)

AG7. Paragraph 41(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and faithfully representative information. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* discusses relevance and reliability.

AG8. Paragraph 41(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgment taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:

(a) A description of how management determines concentrations;

(b) A description of the shared characteristic that identifies each concentration (e.g., counterparty, geographical area, currency, or market); and

(c) The amount of the risk exposure associated with all financial instruments sharing that characteristic.

Maximum Credit Risk Exposure (paragraph 43(a))

AG9. Paragraph 43(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:

(a) Any amounts offset in accordance with IPSAS 28; and

(b) Any impairment losses recognized in accordance with IPSAS 29.

AG10. Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

(a) Granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.

(b) Entering into derivative contracts (e.g., foreign exchange contracts, interest rate swaps, and credit derivatives). When the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount.

(c) Granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognized as a liability.

(d) Making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognized as a liability.

Quantitative Liquidity Risk Disclosures (paragraphs 41(a), and 46(a) and (b))

AG11. In accordance with paragraph 41(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:

(a) Occur significantly earlier than indicated in the data; or

(b) Be for significantly different amounts from those indicated in the data (e.g., for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement);

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 46(a) or (b).

AG12. In preparing the maturity analyses required by paragraph 46(a) and (b), an entity uses its judgment to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(a) Not later than one month;

(b) Later than one month and not later than three months;

(c) Later than three months and not later than one year; and

(d) Later than one year and not later than five years.

AG13. In complying with paragraph 46(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) instrument. For such an instrument, an entity shall apply paragraph 46(a).

AG14. Paragraph 46(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:

(a) An interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.

(b) All loan commitments.

AG15. Paragraph 46(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:

(a) When a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (e.g., demand deposits) are included in the earliest time band.

(b) When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

(c) For issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

AG16. The contractual amounts disclosed in the maturity analyses as required by paragraph 46(a) and (b) are the contractual undiscounted cash flows, for example:

(a) Gross finance lease obligations (before deducting finance charges);

(b) Prices specified in forward agreements to purchase financial assets for cash;

(c) Net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;

(d) Contractual amounts to be exchanged in a derivative financial instrument (e.g., a currency swap) for which gross cash flows are exchanged; and

(e) Gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

AG17. Paragraph 46(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 40(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g., financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

AG18. Other factors that an entity might consider in providing the disclosure required in paragraph 40(c) include, but are not limited to, whether the entity:

(a) Has committed borrowing facilities (e.g., commercial paper facilities) or other lines of credit (e.g., stand-by credit facilities) that it can access to meet liquidity needs;

(b) Holds deposits at central banks to meet liquidity needs;

(c) Has very diverse funding sources;

(d) Has significant concentrations of liquidity risk in either its assets or its funding sources;

(e) Has internal control processes and contingency plans for managing liquidity risk;

(f) Has instruments that include accelerated repayment terms (e.g., on the downgrade of the entity's credit rating);

(g) Has instruments that could require the posting of collateral (e.g., margin calls for derivatives);

(h) Has instruments that allows the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or

(i) Has instruments that are subject to master netting agreements.

Market Risk—Sensitivity Analysis (paragraphs 47 and 48)

AG19. Paragraph 47(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph AG3, an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:

(a) An entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading.

(b) An entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.

If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.

AG20. Paragraph 47(a) requires the sensitivity analysis to show the effect on surplus or deficit and net assets/equity of reasonably possible changes in the relevant risk variable (e.g., prevailing market interest rates, currency rates, equity prices, or commodity prices). For this purpose:

(a) Entities are not required to determine what the surplus or deficit for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on surplus or deficit and net assets/equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on surplus or deficit (i.e., interest expense) for the current year if interest rates had varied by reasonably possible amounts.

(b) Entities are not required to disclose the effect on surplus or deficit and net assets/equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.

AG21. In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:

(a) The economic environments in which it operates. A reasonably possible change should not include remote or "worst case" scenarios or "stress tests". Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are 5 percent and an entity determines that a fluctuation in interest rates of ±50 basis points is reasonably possible. It would disclose the effect on surplus or deficit and net assets/equity if interest rates were to change to 4.5 percent or 5.5 percent. In the next period, interest rates have increased to 5.5 percent. The entity continues to believe that interest rates may fluctuate by ±50 basis points (i.e., that the rate of change in interest rates is stable). The entity would disclose the effect on surplus or deficit and net assets/equity if interest rates were to change to 5 percent or 6 percent. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by ±50 basis points, unless there is evidence that interest rates have become significantly more volatile.

(b) The time frame over which it is making the assessment. The sensitivity analysis shall show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.

AG22. Paragraph 48 permits an entity to use a sensitivity analysis that reflects interdependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 48(a) by disclosing the type of value-at-risk model used (e.g., whether the model relies on Monte Carlo simulations), an explanation about how the model works and the main assumptions (e.g., the holding period and confidence level). Entities might also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.

AG23. An entity shall provide sensitivity analyses for the whole of its operations, but may provide different types of sensitivity analysis for different classes of financial instruments.

Interest Rate Risk

AG24. Interest rate risk arises on interest-bearing financial instruments recognized in the statement of financial position (e.g., loans and receivables and debt instruments issued) and on some financial instruments not recognized in the statement of financial position (e.g., some loan commitments).

Currency Risk

AG25. Currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency (i.e., in a currency other than the functional currency in which they are measured). For the purpose of this Standard, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

AG26. A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

Other Price Risk

AG27. Other price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 47, an entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.

AG28. Two examples of financial instruments that give rise to equity price risk are (a) a holding of equities in another entity, and (b) an investment in a trust that in turn holds investments in equity instruments. Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.

AG29. In accordance with paragraph 47(a), the sensitivity of surplus or deficit (that arises, for example, from instruments classified as at fair value through surplus or deficit and impairments of available-for-sale financial assets) is disclosed separately from the sensitivity of net assets/equity (that arises, for example, from instruments classified as available for sale).

AG30. Financial instruments that an entity classifies as equity instruments are not remeasured. Neither surplus or deficit nor net assets/equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 30.

Introduction

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 30, *Financial Instruments: Disclosures.* As this Standard is based on IFRS 7, *Financial Instruments: Disclosures* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 30 departs from the main requirements of IFRS 7.

BC2. This project on financial instruments is noted as a key part of the IPSASB's convergence program which aims to converge IPSASs with IFRSs.

BC3. In developing this Standard, the IPSASB agreed to retain the existing text of IFRS 7 wherever consistent with existing IPSASs, except to deal with any public sector specific issues which result in adding or deleting disclosures.

BC4. In September 2007, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* which introduced a new component into the presentation of financial statements called "comprehensive income." As the IPSASB has not yet considered this, along with some of the other amendments proposed in IAS 1, those amendments have not been included in IPSAS 30.

Concessionary Loans

BC5. Concessionary loans are granted to or received by an entity on below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. Such loans are a feature of the public sector and are often made to implement a government's or other public sector entity's social policies. The intention of a concessionary loan at the outset is to provide or receive resources on below market terms. For this reason, the IPSASB concluded that more comprehensive disclosures are required by public sector entities for concessionary loans and has included additional disclosure requirements for such loans in paragraph 37.

Revision of IPSAS 30 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC6. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

IMPLEMENTATION GUIDANCE

CONTENTS

Implementation Guidance

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

Introduction

IG1. This guidance suggests possible ways to apply some of the disclosure requirements in IPSAS 30. The guidance does not create additional requirements.

IG2. For convenience, each disclosure requirement in this Standard is discussed separately. In practice, disclosures would normally be presented as an integrated package and individual disclosures might satisfy more than one requirement. For example, information about concentrations of risk might also convey information about exposure to credit or other risk.

Materiality

IG3. IPSAS 1 notes that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material. IPSAS 1 defines materiality as follows:

> Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments made on the basis of the financial statements. Materiality depends on the size and nature 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.

IG4. IPSAS 1 also explains that definition as follows:

> 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.

Classes of Financial Instruments and Level of Disclosure (paragraphs 9 and AG1–AG3)

IG5. Paragraph AG3 states that "an entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics." To satisfy the requirements, an entity may not need to disclose all the information suggested in this guidance.

IG6. Paragraph 29(c) of IPSAS 1 requires an entity to "provide additional disclosures when compliance with the specific requirements in IPSASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance."

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

Financial Liabilities at Fair Value through Surplus or Deficit (paragraphs 13(a)(i) and AG4)

IG7. The following example illustrates the calculation that an entity might perform in accordance with paragraph AG4 of Appendix A of the Standard.

IG8. On January 1, 20X1, an entity issues a 10-year bond with a par value of CU150,000[1] and an annual fixed coupon rate of 8 percent, which is consistent with market rates for bonds with similar characteristics.

IG9. The entity uses the London Interbank Offered Rate (LIBOR) as its observable (benchmark) interest rate. At the date of inception of the bond, LIBOR is 5 percent. At the end of the first year:

(a) LIBOR has decreased to 4.75 percent.

(b) The fair value for the bond is CU153,811, consistent with an interest rate of 7.6 percent.[2]

IG10. The entity assumes a flat yield curve, all changes in interest rates result from a parallel shift in the yield curve, and the changes in LIBOR are the only relevant changes in market conditions.

IG11. The entity estimates the amount of change in the fair value of the bond that is not attributable to changes in market conditions that give rise to market risk as follows:

[paragraph AG4(a)] First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.	At the start of the period of a 10-year bond with a coupon of 8 percent, the bond's internal rate of return is 8 percent. Because the observed (benchmark) interest rate (LIBOR) is 5 percent, the instrument-specific component of the internal rate of return is 3 percent.

1 In this guidance monetary amounts are denominated in "currency units (CU)."

2 This reflects a shift in LIBOR from 5 percent to 4.75 percent and a movement of 0.15 percent which, in the absence of other relevant changes in market conditions, is assumed to reflect changes in credit risk of the instrument.

[paragraph AG4(b)] Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period, and (ii) the instrument-specific component of the internal rate of return as determined in accordance with paragraph AG4(a).	The contractual cash flows of the instrument at the end of the period are: • Interest: CU12,000[(a)] per year for each of years 2–10. • Principal: CU150,000 in year 10. The discount rate to be used to calculate the present value of the bond is thus 7.75 percent, which is 4.75 percent end of period LIBOR rate, plus the 3 percent instrument-specific component. This gives a present value of CU152,367.[(b)]
[paragraph AG4(c)] The difference between the observed market price of the liability at the end of the period and the amount determined in accordance with paragraph AG4(b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.	The market price of the liability at the end of the period is CU153,811.[(c)] Thus, the entity discloses CU1,444, which is CU153,811 − CU152,367, as the increase in fair value of the bond that is not attributable to changes in market conditions that give rise to market risk.

(a) CU150,000 × 8% = CU12,000

(b) $PV = [CU12{,}000 \times (1 - (1 + 0.0775)^{-9})/0.0775] + CU150{,}000 \times (1 + 0.0775)^{-9}$

(c) $\text{market price} = [CU12{,}000 \times (1 - (1 + 0.076)^{-9})/0.076] + CU150{,}000 \times (1 + 0.076)^{-9}$

Defaults and Breaches (paragraphs 22 and 23)

IG12. Paragraphs 22 and 23 require disclosures when there are any defaults or breaches of loans payable. Any defaults or breaches may affect the classification of the liability as current or non-current in accordance with IPSAS 1.

Total Interest Expense (paragraph 24(b))

IG13. Total interest expense disclosed in accordance with paragraph 24(b) is a component of the finance costs, which paragraph 102(b) of IPSAS 1 requires to be presented separately in the statement of financial performance. The line item for finance costs may also include amounts associated with non-financial liabilities.

Fair Value (paragraphs 31–34)

IG14. IPSAS 30 requires disclosures about the level in the fair value hierarchy in which fair value measurements are categorized for assets and liabilities measured in the statement of financial position. A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 33(a). (Disclosure of comparative information is also required, but is not included in the following example).

Assets Measured at Fair Value

		Fair value measurement at end of the reporting period using:		
		Level 1	Level 2	Level 3
Description	**Dec 31, 20X2**	**CU million**	**CU million**	**CU million**
Financial assets at fair value through surplus or deficit				
Trading securities	100	40	55	5
Trading derivatives	39	17	20	2
Available-for-sale financial assets				
Equity investments	75	30	40	5
Total	214	87	115	12

Note: For liabilities, a similar table might be presented.

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 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).

Assets Measured at Fair Value Based on Level 3

	Fair value measurement at the end of the reporting period			
	Financial assets at fair value through surplus or deficit		**Available-for-sale financial assets**	**Total**
	Trading securities CU million	Trading derivatives CU million	Equity investments CU million	CU million
Opening balance	6	5	4	15
Total gains or losses				
in surplus or deficit	(2)	(2)	–	(4)
in net assets/ equity	–	–	(1)	(1)
Purchases	1	2	2	5
Issues	–	–	–	–
Settlements	–	(1)	–	(1)
Transfers out of Level 3	–	(2)	–	(2)
Closing balance	5	2	5	12
Total gains or losses for the period included in surplus or deficit for assets held at the end of the reporting period	(1	(1)	–	(2)

(Note: For liabilities, a similar table might be presented.)

Gains or losses included in surplus or deficit for the period (above) are presented in revenue as follows:

	Revenue
Total gains or losses included in surplus or deficit for the period	(4)
Total gains or losses for the period included in surplus or deficit for assets held at the end of the reporting period	(2)

(Note: For liabilities, a similar table might be presented.)

IG16. The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG108 of IPSAS 29. However, when, after initial recognition, an entity will use a 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 valuation technique. In these circumstances, the difference will be recognized in surplus or deficit in subsequent periods in accordance with IPSAS 29 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 AG108 of IPSAS 29). 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 valuation technique to establish the financial assets' fair value. This valuation technique includes variables other than data from observable markets.

At initial recognition, the same 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 valuation technique to determine 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 29, is generally the transaction price) and the amount determined at initial recognition using the 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 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 29, 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 valuation technique, that difference is [description of the entity's accounting policy].

The differences yet to be recognized in surplus or deficit are as follows:

	Dec 31, X2	**Dec 31, X1**
	CU million	CU million
Balance at beginning of year	5.3	5.0
New transactions	–	1.0
Amounts recognized in surplus or deficit during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	4.5	5.3

Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49 and AG6–AG30)

Qualitative Disclosures (paragraph 40)

IG17. The type of qualitative information an entity might disclose to meet the requirements in paragraph 40 includes, but is not limited to, a narrative description of:

(a) The entity's exposures to risk and how they arose. Information about risk exposures might describe exposures both gross and net of risk transfer and other risk-mitigating transactions.

(b) The entity's policies and processes for accepting, measuring, monitoring, and controlling risk, which might include:

(i) The structure and organization of the entity's risk management function(s), including a discussion of independence and accountability;

(ii) The scope and nature of the entity's risk reporting or measurement systems;

(iii) The entity's policies for hedging or mitigating risk, including its policies and procedures for taking collateral; and

(iv) The entity's processes for monitoring the continuing effectiveness of such hedges or mitigating devices.

(c) The entity's policies and procedures for avoiding excessive concentrations of risk.

IG18. Information about the nature and extent of risks arising from financial instruments is more useful if it highlights any relationship between financial instruments that can affect the amount, timing or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by such relationships might be apparent to users from the disclosures required by this Standard, but in some cases further disclosures might be useful.

IG19. In accordance with paragraph 40(c), entities disclose any change in the qualitative information from the previous period and explain the reasons for the change. Such changes may result from changes in exposure to risk or from changes in the way those exposures are managed.

Quantitative Disclosures (paragraphs 41–49 and AG7–AG30)

IG20. Paragraph 41 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from:

(a) Industry sectors. Thus, if an entity's counterparties are concentrated in one or more industry sectors (such as retail or wholesale), it would disclose separately exposure to risks arising from each concentration of counterparties.

(b) Credit rating or other measure of credit quality. Thus, if an entity's counterparties are concentrated in one or more credit qualities (such as secured loans or unsecured loans) or in one or more credit ratings (such as investment grade or speculative grade), it would disclose separately exposure to risks arising from each concentration of counterparties.

(c) Geographical distribution. Thus, if an entity's counterparties are concentrated in one or more geographical markets (such as Asia or Europe), it would disclose separately exposure to risks arising from each concentration of counterparties.

(d) A limited number of individual counterparties or groups of closely related counterparties.

Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realize liquid assets. Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

IG21. In accordance with paragraph AG8, disclosure of concentrations of risk includes a description of the shared characteristic that identifies each concentration. For example, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries.

IG22. When quantitative information at the end of the reporting period is unrepresentative of the entity's exposure to risk during the period, paragraph 42 requires further disclosure. To meet this requirement, an entity might disclose the highest, lowest, and average amount of risk to which it was exposed during the period. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest, and average exposures.

Credit Risk (paragraphs 43–45, AG9 and AG10)

IG23. Paragraph 43 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured consumer loans, and commercial loans each have different economic characteristics.

Collateral and Other Credit Enhancements Pledged (paragraph 43(b))

IG24. Paragraph 43(b) requires an entity to describe collateral available as security for assets it holds and other credit enhancements obtained. An entity might meet this requirement by disclosing:

(a) The policies and processes for valuing and managing collateral and other credit enhancements obtained;

(b) A description of the main types of collateral and other credit enhancements (examples of the latter being guarantees, credit derivatives, and netting agreements that do not qualify for offset in accordance with IPSAS 28);

(c) The main types of counterparties to collateral and other credit enhancements and their creditworthiness; and

(d) Information about risk concentrations within the collateral or other credit enhancements.

Credit Quality (paragraph 43(c))

IG25. Paragraph 43(c) requires an entity to disclose information about the credit quality of financial assets with credit risk that are neither past due nor impaired. In doing so, an entity might disclose the following information:

(a) An analysis of credit exposures using an external or internal credit grading system;

(b) The nature of the counterparty;

(c) Historical information about counterparty default rates; and

(d) Any other information used to assess credit quality.

IG26. When the entity considers external ratings when managing and monitoring credit quality, the entity might disclose information about:

(a) The amounts of credit exposures for each external credit grade;

(b) The rating agencies used;

(c) The amount of an entity's rated and unrated credit exposures; and

(d) The relationship between internal and external ratings.

IG27. When the entity considers internal credit ratings when managing and monitoring credit quality, the entity might disclose information about:

(a) The internal credit ratings process;

(b) The amounts of credit exposures for each internal credit grade; and

(c) The relationship between internal and external ratings.

Financial Assets that are either Past Due or Impaired (paragraph 44)

IG28. A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, an entity enters into a lending agreement that requires interest to be paid every month. On the first day of the next month, if interest has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings.

IG29. When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

IG30. Paragraph 44(a) requires an analysis by class of the age of financial assets that are past due but not impaired. An entity uses its judgment to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(a) Not more than three months;

(b) More than three months and not more than six months;

(c) More than six months and not more than one year; and

(d) More than one year.

IG31. Paragraph 44(b) requires an analysis of impaired financial assets by class. This analysis might include:

(a) The carrying amount, before deducting any impairment loss;

(b) The amount of any related impairment loss; and

(c) The nature and fair value of collateral available and other credit enhancements obtained.

Market Risk (paragraphs 47–49 and AG19–AG30)

IG32. Paragraph 47(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. There are three types of market risk: interest rate risk, currency risk, and other price risk. Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (i.e., the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk (e.g., a lessor of motor cars that writes residual value guarantees is exposed to residual value risk). Risk variables that are relevant to disclosing market risk include, but are not limited to:

(a) The yield curve of market interest rates. It may be necessary to consider both parallel and non-parallel shifts in the yield curve.

(b) Foreign exchange rates.

(c) Prices of equity instruments.

(d) Market prices of commodities.

IG33. Paragraph 47(a) requires the sensitivity analysis to show the effect on surplus or deficit and net assets/equity of reasonably possible changes in the relevant risk variable. For example, relevant risk variables might include:

(a) Prevailing market interest rates, for interest-sensitive financial instruments such as a variable rate loan; or

(b) Currency rates and interest rates, for foreign currency financial instruments such as foreign currency bonds.

IG34. For interest rate risk, the sensitivity analysis might show separately the effect of a change in market interest rates on:

(a) Interest revenue and expense;

(b) Other line items of surplus or deficit (such as trading gains and losses); and

(c) When applicable, net assets/equity.

An entity might disclose a sensitivity analysis for interest rate risk for each currency in which the entity has material exposures to interest rate risk.

IG35. Because the factors affecting market risk vary depending on the specific circumstances of each entity, the appropriate range to be considered in providing a sensitivity analysis of market risk varies for each entity and for each type of market risk.

IG36. The following example illustrates the application of the disclosure requirement in paragraph 47(a):

Interest Rate Risk

At December 31, 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, surplus for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings, and other revenue would have been CU2.8 million (20X1—CU3.2 million) higher, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale. If interest rates had been 10 basis points higher, with all other variables held constant, surplus would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings, revenue would have been CU3.0 million (20X1—CU3.4 million) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale. Surplus is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X).[a]

Foreign Currency Exchange Rate Risk

At December 31, 20X2, if the CU had weakened 10 percent against the US dollar with all other variables held constant, surplus for the year would have been CU2.8 million (20X1—CU6.4 million) lower, revenue would have been CU1.2 million (20X1—CU1.1 million) higher. Conversely, if the CU had strengthened 10 percent against the US dollar with all other variables held constant, surplus would have been CU2.8 million (20X1—CU6.4 million) higher, revenue would have been CU1.2 million (20X1—CU1.1 million) lower. The lower foreign currency exchange rate sensitivity in surplus in 20X2 compared with 20X1 is attributable to a reduction in foreign currency denominated debt. Revenue is more sensitive in 20X2 than in 20X1 because of the increased use of hedges of foreign currency purchases, offset by the reduction in foreign currency debt.

(a) Paragraph 46 requires disclosure of a maturity analysis of liabilities.

Other Market Risk Disclosures (paragraph 49)

IG37. Paragraph 49 requires the disclosure of additional information when the sensitivity analysis disclosed is unrepresentative of a risk inherent in a financial instrument. For example, this can occur when:

(a) A financial instrument contains terms and conditions whose effects are not apparent from the sensitivity analysis (e.g., options that remain out of (or in) the money for the chosen change in the risk variable);

(b) Financial assets are illiquid (e.g., when there is a low volume of transactions in similar assets and an entity finds it difficult to find a counterparty); or

(c) An entity has a large holding of a financial asset that, if sold in its entirety, would be sold at a discount or premium to the quoted market price for a smaller holding.

IG38. In the situation in paragraph IG37(a), additional disclosure might include:

(a) The terms and conditions of the financial instrument (e.g., the options);

(b) The effect on surplus or deficit if the term or condition were met (i.e., if the options were exercised); and

(c) A description of how the risk is hedged.

For example, an entity may acquire a zero cost interest rate collar that includes an out-of-the-money leveraged written option (e.g., the entity pays ten times the amount of the difference between a specified interest rate floor and the current market interest rate). The entity may regard the collar as an inexpensive economic hedge against a reasonably possible increase in interest rates. However, an unexpectedly large decrease in interest rates might trigger payments under the written option that, because of the leverage, might be significantly larger than the benefit of lower interest rates. Neither the fair value of the collar nor a sensitivity analysis based on reasonably possible changes in market variables would indicate this exposure. In this case, the entity might provide the additional information described above.

IG39. In the situation described in paragraph IG38(b), additional disclosure might include the reasons for the lack of liquidity and how the entity hedges the risk.

IG40. In the situation described in paragraph IG38(c), additional disclosure might include:

(a) The nature of the security (e.g., entity name);

(b) The extent of holding (e.g., 15 percent of the issued shares);

(c) The effect on surplus or deficit; and

(d) How the entity hedges the risk.

Comparison with IFRS 7

IPSAS 30, *Financial Instruments: Disclosures* is drawn primarily from IFRS 7, *Financial Instruments: Disclosures* (originally issued in 2005, including amendments published to April 2009). The main differences between IPSAS 30 and IFRS 7 are as follows:

- IPSAS 30 contains requirements related to concessionary loans. IFRS 7 does not require disclosures relating to concessionary loans.
- In certain instances, IPSAS 30 uses different terminology from IFRS 7. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 30. The equivalent terms in IFRS 7 are "income," "statement of comprehensive income," and "equity."

IPSAS 31—INTANGIBLE ASSETS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS) 38, *Intangible Assets* published by the International Accounting Standards Board (IASB). It also contains extracts from the Standing Interpretations Committee Interpretation 32 (SIC 32), *Intangible Assets—Web Site Costs*. Extracts from IAS 38 and SIC 32 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

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IPSAS 31—INTANGIBLE ASSETS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 31, *Intangible Assets* was issued in January 2010.

Since then, IPSAS 31 has been amended by the following IPSASs:

- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (issued January 2015)
- *Improvements to IPSASs 2014* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)
- *Improvements to IPSASs 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 31

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	Improvements to IPSASs October 2011
3	Amended	Improvements to IPSASs April 2016 IPSAS 40 January 2017
4	Deleted	The Applicability of IPSASs April 2016

Paragraph Affected	How Affected	Affected By
5	Deleted	The Applicability of IPSASs April 2016
6	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015 IPSAS 32 October 2011 IPSAS 39 July 2016 IPSAS 40 January 2017
18	Amended	IPSAS 40 January 2017
18A	New	IPSAS 40 January 2017
24	Amended	IPSAS 40 January 2017
26A	New	IPSAS 40 January 2017
28	Amended	Improvements to IPSASs April 2016
35	Amended	IPSAS 39 July 2016
39A	New	IPSAS 40 January 2017
39B	New	IPSAS 40 January 2017
39C	New	IPSAS 40 January 2017
39D	New	IPSAS 40 January 2017
39E	New	IPSAS 40 January 2017
40	Amended	IPSAS 40 January 2017
41	Amended	IPSAS 40 January 2017
64	Amended	IPSAS 39 July 2016
66	Amended	IPSAS 40 January 2017
67	Amended	IPSAS 40 January 2017
79	Amended	Improvements to IPSASs January 2015
91	Amended	Improvements to IPSASs January 2015
93A	New	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
96	Amended	Improvements to IPSASs April 2016
97	Amended	Improvements to IPSASs January 2015
97A	New	Improvements to IPSASs January 2015
97B	New	Improvements to IPSASs January 2015
97C	New	Improvements to IPSASs January 2015
110	Amended	Impairment of Revalued Assets July 2016
114A	New	IPSAS 40 January 2017
116	Amended	Improvements to IPSASs April 2016
117	Amended	Improvements to IPSASs April 2016 IPSAS 40 January 2017
129	Deleted	IPSAS 33 January 2015
130	Deleted	IPSAS 33 January 2015
131	Deleted	IPSAS 33 January 2015
131A	New	Improvements to IPSASs January 2015
132A	New	IPSAS 32 October 2011
132B	New	Improvements to IPSASs January 2015
132C	New	IPSAS 33 January 2015
132D	New	IPSAS 37 January 2015 IPSAS 35 January 2015
132E	New	Improvements to IPSASs April 2016

Paragraph Affected	How Affected	Affected By
132F	New	The Applicability of IPSASs April 2016
132G	New	Impairment of Revalued Assets July 2016
132H	New	IPSAS 39 July 2016
132I	New	IPSAS 40 January 2017
133	Amended	IPSAS 33 January 2015

IPSAS 31—INTANGIBLE ASSETS

CONTENTS

International Public Sector Accounting Standard 31, *Intangible Assets*, is set out in paragraphs 1–133. All the paragraphs have equal authority. IPSAS 31 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets, and requires specified disclosures about intangible assets.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for intangible assets.**

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) **In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognized.**

4. [Deleted]

5. [Deleted]

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

   (a) Intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11, *Construction Contracts, and* IPSAS 12, *Inventories*);

   (b) Leases that are within the scope of IPSAS 13, *Leases*;

   (c) Assets arising from employee benefits (see *IPSAS 39, Employee Benefits*);

   (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* and *IPSAS 36, Investments in Associates and Joint Ventures*;

   (e) Recognition and initial measurement of service concession assets that are within the scope of IPSAS 32, *Service Concession Assets: Grantor*. However, this Standard applies to the subsequent measurement and disclosure of such assets; and

   (f) Goodwill (see IPSAS 40, *Public Sector Combinations*).

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, *Property, Plant, and Equipment,* or as an intangible asset under this Standard, an entity uses judgement 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.

8. This Standard applies to, among other things, expenditure on advertising, training, start-up, research, and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical

substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

9. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights are excluded from the scope of IPSAS 13 and are within the scope of this Standard.

10. Exclusions from the scope of a Standard may occur if activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas, and mineral deposits in extractive industries, and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries, or by insurers.

Intangible Heritage Assets

11. 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.

12. Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):

    (a) Their value in cultural, environmental, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

    (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

    (c) Their value may increase over time; and

    (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

13. Public sector entities may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including

purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

14. Some intangible heritage assets have future economic benefits or service potential other than their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, an intangible heritage asset may be recognized and measured on the same basis as other items of cash-generating intangible assets. For other intangible heritage assets, their future economic benefit or service potential is limited to their heritage characteristics. The existence of both future economic benefits and service potential can affect the choice of measurement base.

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 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.

Definitions

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

<u>Amortization</u> is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

<u>Carrying amount</u> is the amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses.

<u>Development</u> is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

An <u>intangible asset</u> is an identifiable nonmonetary asset without physical substance.

<u>Research</u> is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

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.

Intangible Assets

17 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licenses, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, lists of users of a service, acquired fishing licenses, acquired import quotas, and relationships with users of a service.

Identifiability

18. Not all the items described in paragraph 17 meet the definition of an intangible asset, i.e., identifiability, control over a resource, and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred. However, if the item is acquired in an acquisition, it forms part of the goodwill recognized at the acquisition date (see paragraph 66).

18A. The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

19. **An asset is identifiable if it either:**

(a) **Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or**

(b) **Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

20. For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Control of an Asset

21. An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way.

22. Scientific or technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted), or by a legal duty on employees to maintain confidentiality.

23. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition.

24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect such relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of an acquisition) provide evidence that the entity is nonetheless able to control

the expected future economic benefits or service potential flowing from the relationships with the users of a service. Because such exchange transactions also provide evidence that the relationships with users of a service are separable, those relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

25. The future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase future revenues (e.g., an on-line system that allows citizens to renew driving licenses more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

Recognition and Measurement

26. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

    (a) The definition of an intangible asset (see paragraphs 17–25); and

    (b) The recognition criteria (see paragraphs 28–30).

    This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

26A. Paragraphs 32–39 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 39A–41 deal with their application to intangible assets acquired in a public sector combination. Paragraphs 42–43 deal with the initial measurement of intangible assets acquired through non-exchange transactions, paragraphs 44–45 with exchanges of intangible assets, and paragraphs 46–48 with the treatment of internally generated goodwill. Paragraphs 49–65 deal with the initial recognition and measurement of internally generated intangible assets.

27. The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's

operations as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognized in the carrying amount of an asset. Consistent with paragraph 61, subsequent expenditure on brands, mastheads, publishing titles, lists users of a service, and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.

28. **An intangible asset shall be recognized if, and only if:**

 (a) **It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and**

 (b) **The cost or fair value of the asset can be measured reliably[1].**

29. **An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.**

30. An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

31. **An intangible asset shall be measured initially at cost in accordance with paragraphs 32–43. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.**

Separate Acquisition

32. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for separately acquired intangible assets.

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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 discusses the transitional approach to the explanation of reliability.

33. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

34. The cost of a separately acquired intangible asset comprises:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) Any directly attributable cost of preparing the asset for its intended use.

35. Examples of directly attributable costs are:

(a) Costs of employee benefits (as defined in IPSAS 39) arising directly from bringing the asset to its working condition;

(b) Professional fees arising directly from bringing the asset to its working condition; and

(c) Costs of testing whether the asset is functioning properly.

36. Examples of expenditures that are not part of the cost of an intangible asset are:

(a) Costs of introducing a new product or service (including costs of advertising and promotional activities);

(b) Costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training); and

(c) Administration and other general overhead costs.

37. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

(a) Costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and

(b) Initial operating deficits, such as those incurred while demand for the asset's output builds up.

38. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the 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 immediately in surplus or deficit, and included in their respective classifications of revenue and expense.

39. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in IPSAS 5, *Borrowing Costs*.

Acquisition of an intangible asset as part of an acquisition (public sector combination)

39A. In accordance with IPSAS 40, if an intangible asset is acquired in an acquisition, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for intangible assets acquired in acquisitions. If an asset acquired in an acquisition is separable or arises from binding arrangements (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 28(b) is always considered to be satisfied for intangible assets acquired in acquisitions.

39B. In accordance with this Standard and IPSAS 40, an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquired operation, irrespective of whether the asset had been recognized by the acquired operation before the acquisition. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquired operation if the project meets the definition of an intangible asset. An acquired operation's in-process research and development project meets the definition of an intangible asset when it:

(a) Meets the definition of an asset; and

(b) Is identifiable, i.e., is separable or arises from binding arrangements (including rights from contracts or other legal rights).

Intangible asset acquired in an acquisition (public sector combination)

39C. If an intangible asset acquired in an acquisition is separable or arises from a binding arrangement (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities that uncertainty enters into the measurement of the asset's fair value.

39D. An intangible asset acquired in an acquisition might be separable, but only together with a related binding arrangement, identifiable asset or liability. In such cases, the acquirer recognizes the intangible asset separately from goodwill, but together with the related item.

39E. The acquirer may recognize a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.

Subsequent Expenditure on an Acquired In-process Research and Development Project

40. **Research or development expenditure that:**

    (a) **Relates to an in-process research or development project acquired separately or in an acquisition and recognized as an intangible asset; and**

    (b) **Is incurred after the acquisition of that project;**

    shall be accounted for in accordance with paragraphs 52–60.

41. Applying the requirements in paragraphs 52–60 means that subsequent expenditure on an in-process research or development project acquired separately or in an acquisition and recognized as an intangible asset is:

    (a) Recognized as an expense when incurred if it is research expenditure;

    (b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 55; and

    (c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 55.

Intangible Assets Acquired through Non-Exchange Transactions

42. In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources. A private citizen, for

example a Nobel Prize winner, may bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a non-exchange transaction.

43. Under these circumstances the cost of the item is its fair value at the date it is acquired. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph 74, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 74, and the supporting commentary in paragraphs 75–86 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

Exchanges of Assets

44. One or more intangible assets 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 intangible asset is measured at fair value unless 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.

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 is not significant for that asset: or

(b) The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

If an entity is able to determine 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

46. **Internally generated goodwill shall not be recognized as an asset.**

47. In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure

is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights) controlled by the entity that can be measured reliably at cost.

48. Differences between the market 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 value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally Generated Intangible Assets

49. It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:

(a) Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and

(b) Determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 50–65 to all internally generated intangible assets.

50. To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(a) A research phase; and

(b) A development phase.

Although the terms "research" and "development" are defined, the terms "research phase" and "development phase" have a broader meaning for the purpose of this Standard.

51. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research Phase

52. **No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.**

53. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Therefore, this expenditure is recognized as an expense when it is incurred.

54. Examples of research activities are:

(a) Activities aimed at obtaining new knowledge;

(b) The search for, evaluation and final selection of, applications of research findings or other knowledge;

(c) The search for alternatives for materials, devices, products, processes, systems, or services; and

(d) The formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services.

Development Phase

55. **An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:**

(a) **The technical feasibility of completing the intangible asset so that it will be available for use or sale;**

(b) **Its intention to complete the intangible asset and use or sell it;**

(c) **Its ability to use or sell the intangible asset;**

(d) **How the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;**

(e) **The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and**

(f) **Its ability to measure reliably the expenditure attributable to the intangible asset during its development.**

56. In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits or service potential. This is because the development phase of a project is further advanced than the research phase.

57. Examples of development activities are:

(a) The design, construction, and testing of pre-production or pre-use prototypes and models;

(b) The design of tools, jigs, moulds, and dies involving new technology;

(c) The design, construction, and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services;

(d) The design, construction, and testing of a chosen alternative for new or improved materials, devices, products, processes, systems, or services; and

(e) Website costs and software development costs.

58. To demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefits or service potential to be received from the asset using the principles in either IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. If the asset will generate economic benefits or service potential only in combination with other assets, the entity applies the concept of cash-generating units in IPSAS 26.

59. Availability of resources to complete, use, and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating plan showing the technical, financial, and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's or funder's indication of its willingness to fund the plan.

60. An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing logos, copyrights or licenses, or developing computer software.

61. **Internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance shall not be recognized as intangible assets.**

62. Expenditure on internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance cannot be distinguished from the cost of developing the entity's operations as a whole. Therefore, such items are not recognized as intangible assets.

Cost of an Internally Generated Intangible Asset

63. The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29,

and 55. Paragraph 70 prohibits reinstatement of expenditure previously recognized as an expense.

64. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

    (a) Costs of materials and services used or consumed in generating the intangible asset;

    (b) Costs of employee benefits (as defined in IPSAS 39) arising from the generation of the intangible asset;

    (c) Fees to register a legal right; and

    (d) Amortization of patents and licenses that are used to generate the intangible asset.

    IPSAS 5 specifies criteria for the recognition of interest as an element of the cost of an asset that is a qualifying asset.

65. The following are not components of the cost of an internally generated intangible asset:

    (a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

    (b) Identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance; and

    (c) Expenditure on training staff to operate the asset.

Recognition of an Expense

66. **Expenditure on an intangible item shall be recognized as an expense when it is incurred unless:**

    (a) **It forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 26–65); or**

    (b) **The item is acquired in an acquisition and cannot be recognized as an intangible asset. If this is the case, it forms part of the amount recognized as goodwill at the acquisition date (see IPSAS 40).**

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. 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.

68. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver information about a service to users of that service.

69. Paragraph 66 does not preclude an entity from recognizing a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 66 does not preclude an entity from recognizing a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past Expenses not to be Recognized as an Asset

70. **Expenditure on an intangible item that was initially recognized as an expense under this Standard shall not be recognized as part of the cost of an intangible asset at a later date.**

Subsequent Measurement

71. **An entity shall choose either the cost model in paragraph 73 or the revaluation model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the revaluation 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.**

72. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Cost Model

73. **After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.**

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. For the purpose of revaluations under this Standard, fair value shall be determined 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 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 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 model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 42–43).

77. It is uncommon for an active market to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable homogeneous classes of licenses or production quotas the entity has acquired from another entity. However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents, or trademarks, because each such asset is unique. Also, although intangible assets are bought and sold, contracts are negotiated between individual buyers and sellers, and transactions are relatively infrequent. For these reasons, the price paid for one asset may not provide sufficient evidence of the fair value of another. Moreover, prices are often not available to the public.

78. The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.

79. When an intangible asset 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 amortization 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 amortization is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated amortization forms part of the increase or decrease in the carrying amount that is accounted for in accordance with paragraphs 84 and 85.

80. **If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.**

81. **If the fair value of a revalued intangible asset can no longer be determined 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.**

82. The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with IPSAS 21 or IPSAS 26, as appropriate.

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

84. **If an intangible asset's carrying amount 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 asset previously recognized in surplus or deficit.

85. **If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be recognized directly in net assets/equity to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognized directly in net assets/equity reduces the amount accumulated in net assets/equity under the heading of revaluation surplus.**

86. The cumulative revaluation surplus included in net assets/equity may be transferred directly to accumulated surpluses or deficits when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset. However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between amortization based on the revalued carrying amount of the asset and amortization that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

Useful Life

87. **An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset 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 generate net cash inflows for, or provide service potential to, the entity.**

88. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs 96–105), and an intangible asset with an indefinite useful life is not (see paragraphs 106–109). The Illustrative Examples accompanying this Standard illustrate the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations.

89. Many factors are considered in determining the useful life of an intangible asset, including:

   (a) The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

   (b) 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;

(c) Technical, technological, commercial, or other types of obsolescence;

(d) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

(e) Expected actions by competitors or potential competitors;

(f) 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;

(g) 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; and

(h) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

90. The term "indefinite" does not mean "infinite." The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.

91. Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset 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.

92. The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

93. **The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) shall not exceed the period of the binding arrangement (including rights from contracts or other legal rights), but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.**

93A. **The useful life of:**

(a) **A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or**

(b) **A reacquired right recognized as an intangible asset in an acquisition is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and shall not include renewal periods.**

94. There may be economic, political, social, and legal factors influencing the useful life of an intangible asset. Economic, political, or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.

95. Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or other legal rights) without significant cost:

(a) There is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or other legal rights) will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;

(b) There is evidence that any conditions necessary to obtain renewal will be satisfied; and

(c) The cost to the entity of renewal is not significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal, the "renewal" cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Intangible Assets with Finite Useful Lives

Amortization Period and Amortization Method

96. **The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset 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. Amortization shall cease at the date that the asset is derecognized. The amortization method used shall reflect the pattern in which the asset's future economic benefits**

or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

97. A variety of amortization 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. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits or service potential embodied in the asset and 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.

97A. There is a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits or service potential embodied in the intangible 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. This presumption can be overcome only in the limited circumstances:

(a) In which the intangible asset is expressed as a measure of revenue, as described in paragraph 97C; or

(b) When it can be demonstrated that revenue and the consumption of the economic benefits or service potential of the intangible asset are highly correlated.

97B. In choosing an appropriate amortization method in accordance with paragraph 97, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (i.e., time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortization, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits or service potential.

97C. In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortization. For example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches CU100 million). In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortizing the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortization is to be determined.

98. Amortization is usually recognized in surplus or deficit. However, sometimes the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the amortization charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortization of intangible assets used in a production process is included in the carrying amount of inventories (see IPSAS 12).

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 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.**

100. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

101. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*

102. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortization

charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of Amortization Period and Amortization Method

103. **The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IPSAS 3.**

104. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortization period needs to be changed.

105. Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortization is appropriate rather than a straight-line method. Another example is if use of the rights represented by a license is deferred pending action on other components of the entity's strategic plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

Intangible Assets with Indefinite Useful Lives

106. **An intangible asset with an indefinite useful life shall not be amortized.**

107. In accordance with IPSAS 21 and IPSAS 26, an entity is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount:

(a) Annually; and

(b) Whenever there is an indication that the intangible asset may be impaired.

Review of Useful Life Assessment

108. **The useful life of an intangible asset that is not being amortized shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from**

indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

109. For intangible assets measured under the cost model, reassessing the useful life of an intangible asset as finite rather than indefinite in accordance with either IPSAS 21 or IPSAS 26, as appropriate, is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable service amount or its recoverable amount, determined in accordance with either IPSAS 21 or IPSAS 26, as appropriate, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable service amount or recoverable amount as appropriate, as an impairment loss.

Recoverability of the Carrying Amount—Impairment Losses

110. To determine whether an intangible asset is impaired, an entity applies either IPSAS 21 or IPSAS 26, as appropriate. Those Standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognizes or reverses an impairment loss.

Retirements and Disposals

111. **An intangible asset shall be derecognized:**

(a) **On disposal (including disposal through a non-exchange transaction); or**

(b) **When no future economic benefits or service potential are expected from its use or disposal.**

112. **The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback).**

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). In determining the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods. IPSAS 13 applies to disposal by a sale and leaseback.

114. If, in accordance with the recognition principle in paragraph 28, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognizes the carrying amount of the replaced part. 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 internally generated.

114A. In the case of:

(a) A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or

(b) A reacquired right recognized as an intangible asset in an acquisition,

if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.

115. The consideration receivable on disposal of an intangible asset is recognized initially at its fair value. If payment for the intangible asset 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.

116. Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated.

Disclosure

General

117. **An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:**

(a) **Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;**

(b) **The amortization methods used for intangible assets with finite useful lives;**

(c) **The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;**

(d) **The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;**

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

(i) **Additions, indicating separately those from internal development, those acquired separately, and those acquired through acquisitions;**

(ii) **Disposals;**

(iii) **Increases or decreases during the period resulting from revaluations under paragraphs 74, 84 and 85 (if any);**

(iv) **Impairment losses recognized in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**

(v) **Impairment losses reversed in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**

(vi) **Any amortization recognized during the period;**

(vii) **Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and**

(viii) **Other changes in the carrying amount during the period.**

118. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

(a) Brand names;

(b) Mastheads and publishing titles;

(c) Computer software;

(d) Licenses;

(e) Copyrights, patents, and other industrial property rights, service, and operating rights;

(f) Recipes, formulae, models, designs, and prototypes; and

(g) Intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

119. An entity discloses information on impaired intangible assets in accordance with IPSAS 21 or IPSAS 26 in addition to the information required by paragraph 117(e)(iii)–(v).

120. IPSAS 3 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or

is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

(a) The assessment of an intangible asset's useful life;

(b) The amortization method; or

(c) Residual values.

121. **An entity shall also disclose:**

(a) **For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.**

(b) **A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material to the entity's financial statements.**

(c) **For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs 42–43):**

(i) **The fair value initially recognized for these assets;**

(ii) **Their carrying amount; and**

(iii) **Whether they are measured after recognition under the cost model or the revaluation model.**

(d) **The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.**

(e) **The amount of contractual commitments for the acquisition of intangible assets.**

122. When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph 89.

Intangible Assets Measured after Recognition using the 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 cost model in paragraph 73;**

(b) **The amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to owners; and**

(c) **The methods and significant assumptions applied in estimating the assets' fair values.**

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 cost and revaluation models.

Research and Development Expenditure

125. **An entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period.**

126. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 64 and 65 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 125).

Other Information

127. An entity is encouraged, but not required, to disclose the following information:

(a) A description of any fully amortized intangible asset that is still in use; and

(b) A brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard.

Transitional Provisions

128. **An entity that has previously recognized intangible assets shall apply this Standard retrospectively in accordance with IPSAS 3.**

129. [Deleted]

130. [Deleted]

131. [Deleted]

131A. Paragraph 79 was amended by *Improvements to IPSASs 2014* issued in January 2015. An entity shall apply that amendment to all revaluations recognized in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period.

Effective Date

132. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2011. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2011, it shall disclose that fact and apply IPSAS 21 and IPSAS 26 at the same time.**

132A. **Paragraph 6 was amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 6 and 42A of IPSAS 5, the amendments to paragraphs 25–27 and 85B of IPSAS 13, the amendments to paragraphs 5, 7 and 107C of IPSAS 17 and the amendments to paragraphs 2 and 125A of IPSAS 29.**

132B. **Paragraphs 79, 91 and 97 were amended and paragraphs 97A, 97B, 97C and 131A added by *Improvements to IPSASs 2014* issued in January 2015. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2015. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2015, it shall disclose that fact.**

132C. **Paragraphs 129, 130, 131 and 133 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

132D. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements* issued in January 2015, amended paragraph 6(d). An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.**

132E. **Paragraphs 3, 96, 116 and 117 were amended by *Improvements to IPSASs 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies**

the amendments for a period beginning before January 1, 2017, it shall disclose that fact.

132F. **Paragraphs 4 and 5 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

132G. ***Impairment of Revalued Assets* (Amendments to IPSASs 21 and 26) amended paragraph 110. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies that amendment for a period beginning before January 1, 2018, it shall disclose that fact.**

132H. **Paragraphs 6, 35 and 64 were amended by IPSAS 39, *Employee Benefits,* issued in July 2016. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

132I. **Paragraphs 3, 6, 18, 24, 40, 41, 66, 67, and 117 were amended and paragraphs 18A, 26A, 39A–39E, 93A and 114A were added by IPSAS 40, *Public Sector Combinations,* issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Therefore, amounts recognized for intangible assets and goodwill in prior public sector combinations shall not be adjusted. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

133. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

AG1. An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, provide electronic services, and sell services and products. A website designed for internal access may be used to store entity policies and details of users of a service, and search relevant information.

AG2. The stages of a website's development can be described as follows:

(a) Planning—includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives, and selecting preferences;

(b) Application and Infrastructure Development—includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications, and stress testing;

(c) Graphical Design Development—includes designing the appearance of web pages; and

(d) Content Development—includes creating, purchasing, preparing, and uploading information, either textual or graphical in nature, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

AG3. Once development of a website has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design, and content of the website.

AG4. When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

(a) Whether the website is an internally generated intangible asset that is subject to the requirements of this Standard; and

(b) The appropriate accounting treatment of such expenditure.

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. 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.

AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11 and IPSAS 12) or leases that fall within the scope of IPSAS 13. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Application Guidance. When a website is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.

AG7. An entity's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of this Standard.

AG8. A website arising from development is recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 28 of this Standard for recognition and initial measurement, an entity can satisfy the requirements in paragraph 55 of this Standard. In particular, an entity may be able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits or service potential in accordance with paragraph 55(d) of this Standard when, for example, the website is capable of generating revenues, including direct revenues from enabling orders to be placed, or providing services using the website, rather than at a physical location using civil servants. An entity is not able to demonstrate how a website developed solely or primarily for promoting and advertising its own services and products will generate probable future economic benefits or service potential, and consequently all expenditure on developing such a website is recognized as an expense when incurred.

AG9. Any internal expenditure on the development and operation of an entity's own website is accounted for in accordance with this Standard. The nature of each activity for which expenditure is incurred (e.g., training employees and maintaining the website) and the website's stage of development or post-development are evaluated to determine the appropriate accounting treatment (additional guidance is provided in the table included at the end of the Illustrative Examples). For example:

(a) The Planning stage is similar in nature to the research phase in paragraphs 52–54 of this Standard. Expenditure incurred in this stage is recognized as an expense when it is incurred;

(b) The Application and Infrastructure Development stage, the Graphical Design stage, and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own services and products, are similar in nature to the development phase in paragraphs 55–62 of this Standard. Expenditure incurred in these stages is included in the cost of a website recognized as an intangible asset in accordance with paragraph AG8 when the expenditure can be directly attributed and is necessary to creating, producing or preparing the website for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own services and products) specifically for a website, or expenditure to enable use of the content (e.g., a fee for acquiring a license to reproduce) on the website, is included in the cost of development when this condition is met. However, in accordance with paragraph 83 of this Standard, expenditure on an intangible item that was initially recognized as an expense in previous financial statements is not recognized as part of the cost of an intangible asset at a later date (e.g., if the costs of a copyright have been fully amortized, and the content is subsequently provided on a website);

(c) Expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products), is recognized as an expense when incurred in accordance with paragraph 67(c) of this Standard. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure is recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the website; and

(d) The Operating stage begins once development of a website is complete. Expenditure incurred in this stage is recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 28 of this Standard.

AG10. A website that is recognized as an intangible asset under paragraph AG8 of this Application Guidance is measured after initial recognition by applying the requirements of paragraphs 71–86 of this Standard. The best estimate of a website's useful life should be short, as described in paragraph 91.

AG11. The guidance in paragraphs AG1–AG10 does not specifically apply to software development costs. However, an entity may apply the principles in these paragraphs.

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

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

Background

BC1. The IPSASB's IFRSs Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the *Comparison with IFRS* included in each IPSAS. The Comparison with IAS 38 references the December 31, 2008 version of IAS 38.

Scope

BC3. The Board considered whether powers and rights conferred by legislation, a constitution, or by equivalent means should be included in the scope of the Standard. The Board has not formed a view on this topic and therefore, these powers and rights are excluded from the scope of this Standard. The Board is currently developing a Conceptual Framework and will reconsider, if necessary, the applicability of this Standard to powers and rights conferred by legislation, a constitution, or by equivalent means.

BC4. IAS 38 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. In issuing IPSAS 31, the IPSASB considered whether goodwill and intangible assets acquired in a business combination should be included in the scope of this Standard. The IPSASB had not yet issued an IPSAS dealing with business combinations and considered it likely that a number of public sector specific issues will arise when combinations of public sector entities take place. The IPSASB concluded at that time that goodwill and intangible assets acquired in a business combination should not be included in the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Policies and Errors*, users were referred to the requirements of the relevant international or national accounting standards dealing with goodwill and intangible assets acquired in a business combination.

BC4A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations*. IPSAS 40 specifies the accounting for public sector combinations, including the initial recognition and measurement of intangible assets. IPSAS 40 does not specify the subsequent measurement and disclosure of intangible assets recognized as part of a public sector combination. Consequently, the IPSASB reconsidered whether goodwill and intangible assets recognized in a public sector combination should be included in the scope of this Standard. The IPSASB agreed that such assets should be included in the scope of this Standard as a result of the IPSASB issuing IPSAS 40, and amended the Standard accordingly.

BC5. IAS 38 contains requirements on exchanges of assets when the exchange transaction lacks commercial substance. The IPSASB considered whether this guidance is necessary and concluded that it was not necessary because this issue is addressed in IPSAS 23.

BC6. The IASB has issued an Interpretation of IAS 38 dealing with accounting for website costs. The IPSASB believes the guidance contained in SIC 32 is relevant to the public sector. Accordingly, IPSAS 31 includes as application guidance the definitions and guidance contained in SIC 32. This application guidance is an integral part of IPSAS 31. The appendix in SIC 32 that illustrates the relevant accounting principles and how they are linked to IPSAS 31 is included in the illustrative examples.

BC7. The Standard does not address emissions trading schemes. The IPSASB noted that, emissions trading schemes a government has established are a type of powers and rights conferred by legislation, a constitution, or by equivalent means, which are excluded from the scope of the Standard (see paragraph BC3). A government may acquire permits under emissions trading schemes. The treatment of such permits is currently being studied by some international and national standard-setting bodies and a consensus has not been reached on the appropriate accounting treatment. The IPSASB will reconsider, if necessary, the applicability of this Standard to emissions trading schemes.

Intangible Assets Acquired through a Non-Exchange Transaction

BC8. IPSAS 23 prescribes the initial recognition, initial measurement and disclosure of assets and liabilities arising from non-exchange revenue transactions. This Standard addresses the circumstance where an intangible asset is acquired through a non-exchange transaction. The IPSASB agreed that, for intangible assets arising from such transactions, an entity applies the requirements of IPSAS 23 in conjunction with this Standard for initial measurement of the intangible asset and, accordingly, considers directly attributable costs specified in this Standard.

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. 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 IASB's *Improvements to IFRSs* and *Narrow Scope Amendments* issued in December 2013 and May 2014

BC10. The IPSASB reviewed the revisions to IAS 38 included in the *Improvements to IFRSs* and *Clarification of Acceptable Methods of Depreciation and Amortisation* issued by the IASB in December 2013 and May 2014 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 31 as a result of Part II of *Improvements to IPSASs 2015*: issues raised by stakeholders

BC11. Stakeholders indicated that IPSASs referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, may only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector may not be completed within one year because of the levels of approval required. This raises questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB notes that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB has concerns that not depreciating assets for an extended period of time may be inappropriate.

(b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements may not provide relevant information for these transfers. However, the IPSASB recognizes that the measurement and disclosure requirements in IFRS 5 may be appropriate where sales are intended to take place at fair value.

(c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements may not provide relevant information for public sector discontinued operations. However, the IPSASB recognizes that the disclosure requirements in IFRS 5 may be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference may result in entities following the requirements of IFRS 5 in circumstances where this may not be appropriate. The IPSASB noted that IPSAS 3 provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSASs. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

Revision of IPSAS 31 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC12. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

ILLUSTRATIVE EXAMPLES

CONTENTS

Illustrative Examples

These examples accompany, but are not part of, IPSAS 31.

Recognition and Measurement of an Internally-Generated Intangible Asset

Example Applying Paragraph 63 of this Standard

IE1. An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. During the financial year ending March 31, 20X8, expenditure incurred for the development of the system was CU1,000,[2] of which CU900 was incurred before March 1, 20X8 and CU100 was incurred between March 1, 20X8 and March 31, 20X8. The entity is able to demonstrate that, at March 1, 20X8, the newly developed system met the criteria for recognition as an intangible asset. The recoverable service amount of the system (including future cash outflows to complete the development before it is available for use) is estimated to be CU500.

IE2. At the end of the financial year, the developed system is recognized as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e., March 1, 20X8). The CU900 expenditure incurred before March 1, 20X8 is recognized as an expense because the recognition criteria were not met until March **1,** 20X8. This expenditure does not form part of the cost of the system recognized in the statement of financial position.

IE3. During the financial year ending March 31, 20X9, expenditure incurred is CU2,000. At the end of this financial year, the recoverable service amount of the system (including future cash outflows to complete the system before it is available for use) is estimated to be CU1,900.

IE4. As at March 31, 20X9, the cost of the developed system is CU2,100 (CU100 expenditure recognized at the end of 20X8 plus CU2,000 expenditure recognized in the 20X9 financial year). The entity recognizes an impairment loss of CU200 to adjust the carrying amount of the developed system before the impairment loss (CU2,100) to its recoverable service amount (CU1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in IPSAS 21 are met.

Example Applying Paragraphs 55–65 of this Standard

IE5. An entity is developing a system which produces statistical reports for its internal use and for sale to third-parties. The system is technically feasible, the entity is aware that there is a demand for this type of report and which third-parties are willing to pay for the product and therefore will generate

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[2] In this Standard, monetary amounts are denominated in "currency units" (CU).

probable future economic benefits. The expenditure attributable to the development of this system can be identified and measured reliably.

Assessing the Useful Lives of Intangible Assets

IE6. The following guidance provides examples on determining the useful life of an intangible asset in accordance with this Standard.

IE7. Each of the following examples describes an acquired intangible asset, the facts and circumstances surrounding the determination of its useful life, and the subsequent accounting based on that determination.

An Acquired Patent with a Finite Useful Life

IE8. Entity A acquires a patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. The vaccine protected by the patent is expected to be a source of service potential for at least 15 years. Entity A has a commitment from Entity C to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and Entity A intends to sell the patent in five years.

IE9. The patent would be amortized over its five-year useful life to Entity A, with a residual value equal to 60 per cent of the patent's fair value at the date it was acquired. The patent would also be reviewed for impairment in accordance with IPSAS 21.

An Acquired Patent with an Indefinite Useful Life

IE10. Entity A acquires an asset, the patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy. There is evidence to support ongoing renewal of the patent. A contract with Entity B stipulates that Entity B will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to the Entity B when the improvements are made.

IE11. An analysis of product lifecycle studies, and demographic and environmental trends, provides evidence that the patent will provide service potential to Entity A by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life. Therefore, the patent would not be amortized unless its useful life is determined to be finite. The patent would be tested for impairment in accordance with IPSAS 21.

An Acquired Copyright that has a Remaining Legal Life of 50 Years

IE12. Entity A acquires a copyright from Entity B to enable it to reproduce and sell the copyrighted material on a cost-recovery basis to its constituency. An analysis of the habits of the entity's constituency and other trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

IE13. The copyright would be amortized over its 30-year estimated useful life. The copyright also would be reviewed for impairment in accordance with IPSAS 21.

An Acquired Broadcasting License that Expires in Five Years—Part A

IE14. Entity A acquires a broadcasting license from Entity B. Entity A intends to provide free broadcasting services in the community. The broadcasting license is renewable every 10 years if Entity A provides at least an average level of service to its users of its service and complies with the relevant legislative requirements. The license may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. Entity A intends to renew the license indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the license renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the license is expected to contribute to Entity A's ability to provide free broadcasting services indefinitely.

IE15. Entity B does not recognize its power to grant broadcasting licenses as an intangible asset. The broadcasting license would be treated by Entity A as having an indefinite useful life because it is expected to contribute to the entity's ability to provide free broadcasting services indefinitely. Therefore, the license would not be amortized until its useful life is determined to be finite. The license would be tested for impairment in accordance with IPSAS 21.

An Acquired Broadcasting License that Expires in Five Years—Part B

IE16. The licensing authority subsequently decides that it will no longer renew broadcasting licenses, but rather will auction the licenses. At the time the licensing authority's decision is made, Entity A's broadcasting license has three years until it expires. Entity A expects that the license will continue to provide service potential until the license expires.

IE17. Because the broadcasting license can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired license would be amortized by Entity A over its remaining three-year useful life and immediately tested for impairment in accordance with IPSAS 21.

An Acquired Right to Operate a Public Transit Route Between Two Cities that Expires in Three Years

IE18. Entity A acquires from Entity B a right to operate a public transit route between two cities, which generates revenues. The transit route may be renewed every five years, and Entity A intends to comply with the applicable rules and regulations surrounding renewal. Transit route renewals are routinely granted at a minimal cost and historically have been renewed when the entity that holds the rights to the route has complied with the applicable rules and regulations. Entity A expects to provide transit services on the route indefinitely. An analysis of demand and cash flows supports those assumptions.

IE19. Because the facts and circumstances support the public transit route providing cash flows to Entity A for an indefinite period of time, the intangible asset related to the transit route is treated as having an indefinite useful life. Therefore, the intangible asset would not be amortized until its useful life is determined to be finite. It would be tested for impairment in accordance with IPSAS 26 annually and whenever there is an indication that it may be impaired.

An Acquired List of Property Owners

IE20. A local authority (Entity A) acquires a list of property owners from another public sector entity which is responsible for registering property deeds (Entity B). Entity B is at another level of government, and is not part of Entity A's reporting entity. Entity A intends to use the list to generate tax revenues and Entity A expects that it will be able to derive benefit from the information on the acquired list[3] for at least one year, but no more than three years.

IE21. The list of property owners would be amortized over Entity A's best estimate of its useful life, say 18 months. Although Entity B may intend to add property owner names and other information to the list in the future, the expected benefits to Entity A of the acquired list relate only to the property owners on that list at the date Entity A acquired the list. The list of property owners also would be reviewed for impairment in accordance with IPSAS 21 by assessing annually and whenever there is any indication that it may be impaired.

[3] Although the local authority may intend to add property owners and other information to the database in the future, the expected benefits of the acquired database relate only to the property owners on that database at the date it was acquired. Subsequent additions would be considered to be internally-developed intangible assets, and accounted for in accordance with this Standard.

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	
• Undertaking feasibility studies; • Defining hardware and software specifications; • Evaluating alternative products and suppliers; and • Selecting preferences.	Recognize as an expense when incurred in accordance with paragraph 52 of this Standard.
Application and Infrastructure Development	
• Purchasing or developing hardware. • Obtaining a domain name; • Developing operating software (e.g., operating system and server software); • Developing code for the application; • Installing developed applications on the web server; and • Stress testing.	Apply the requirements of IPSAS 17. Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs 28 and 55[4] of this Standard.
Graphical Design Development	
• Designing the appearance (e.g., layout and color) of web pages.	Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs 28 and 55[5] of this Standard.
Content Development	
• Creating, purchasing, preparing (e.g., creating links and identifying tags), and uploading	Recognize as an expense when incurred in accordance with paragraph 67(c) of this Standard to the extent that content

[4] All expenditure on developing a website solely or primarily for promoting, advertising, or providing information to the public at large regarding the entity's own products and services is recognized an expense when incurred in accordance with paragraph 66 of this Standard.

[5] See footnote 3.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
information, either textual or graphic in nature, on the website before the completion of the website's development. Examples of content include information about an entity, services, or products, and topics that subscribers access.	is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products). Otherwise, recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs 28 and 55[6] of this Standard.
Operating	
• Updating graphics and revising content; • Adding new functions, features, and content; • Registering the website with search engines; • Backing up data; • Reviewing security access; and • Analyzing usage of the website.	Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph 28 of this Standard, in which case the expenditure is recognized in the carrying amount of the website asset.
Other	
• Selling, administrative, and other general overhead expenditure unless it can be directly attributed to preparing the website for use to operate in the manner intended by management; • Clearly identified inefficiencies and initial operating deficits incurred before the website achieves planned performance (e.g., false-start testing); and • Training employees to operate the website.	Recognize as an expense when incurred in accordance with paragraphs 63–69 of this Standard.

[6] See footnote 3.

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 intangible heritage assets. 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. 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."

IPSAS 32—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) sets out the accounting requirements of the grantor in a service concession arrangement. It is adapted from Interpretation 12 (IFRIC 12), *Service Concession Arrangements*, developed by the International Financial Reporting Interpretations Committee and published by the International Accounting Standards Board (IASB). IFRIC 12 sets out the accounting requirements of the operator in a service concession arrangement. This IPSAS also contains extracts from Interpretation 29 (SIC-29), *Service Concession Arrangements: Disclosures*, developed by the Standing Interpretations Committee and published by the IASB. Extracts from IFRIC 12 and SIC-29 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

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IPSAS 32—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 32, *Service Concession Arrangements: Grantor* was issued in October 2011.

Since then, IPSAS 27 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (issued January 2015)

Table of Amended Paragraphs in IPSAS 32

Paragraph Affected	How Affected	Affected By
3	Deleted	The Applicability of IPSASs April 2016
4	Deleted	The Applicability of IPSASs April 2016
13	Amended	Improvements to IPSASs April 2016
32	Amended	Improvements to IPSASs April 2016
33	Amended	Improvements to IPSASs April 2016
35	Deleted	IPSAS 33 January 2015
35A	New	Improvements to IPSASs April 2016
35B	New	Improvements to IPSASs April 2016
36A	New	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
36B	New	Improvements to IPSASs April 2016
36C	New	The Applicability of IPSASs April 2016
37	Amended	IPSAS 33 January 2015
AG20	Amended	Improvements to IPSASs April 2016
AG35	Amended	Improvements to IPSASs April 2016
AG68	Deleted	IPSAS 33 January 2015
AG69	Deleted	IPSAS 33 January 2015
AG70	Deleted	IPSAS 33 January 2015
AG71	Deleted	IPSAS 33 January 2015
AG72	Deleted	IPSAS 33 January 2015
AG73	Deleted	IPSAS 33 January 2015

October 2011

IPSAS 32—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

CONTENTS

International Public Sector Accounting Standard 32, *Service Concession Arrangements: Grantor* is set out in paragraphs 1–37. All the paragraphs have equal authority. IPSAS 32 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Scope (see paragraphs AG1–AG2)

2. **An entity[1] that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.**

3. [Deleted]

4. [Deleted]

5. Arrangements within the scope of this Standard involve the operator providing public services related to the service concession asset on behalf of the grantor.

6. Arrangements outside the scope of this Standard are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (e.g., outsourcing, service contracts, or privatization).

7. This Standard does not specify the accounting by operators (guidance on accounting for service concession arrangements by the operator can be found in the relevant international or national accounting standard dealing with service concession arrangements).

Definitions (see paragraphs AG3–AG4)

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

A <u>binding arrangement</u>, for the purposes of this Standard, describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

A <u>grantor</u>, for the purposes of this Standard, is the entity that grants the right to use the service concession asset to the operator.

An <u>operator</u>, for the purposes of this Standard, is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

A <u>service concession arrangement</u> is a binding arrangement between a grantor and an operator in which:

[1] An entity for the purposes of this Standard is referred to as the grantor.

(a) **The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and**

(b) **The operator is compensated for its services over the period of the service concession arrangement.**

A <u>service concession asset</u> is an asset used to provide public services in a service concession arrangement that:

(a) **Is provided by the operator which:**

  (i) **The operator constructs, develops, or acquires from a third party; or**

  (ii) **Is an existing asset of the operator; or**

(b) **Is provided by the grantor which:**

  (i) **Is an existing asset of the grantor; or**

  (ii) **Is an upgrade to an existing asset of the grantor.**

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.

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5–AG35)

9. **The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:**

   (a) **The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**

   (b) **The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.**

10. **This Standard applies to an asset used in a service concession arrangement for its entire useful life (a "whole-of-life" asset) if the conditions in paragraph 9(a) are met.**

11. **The grantor shall initially measure the service concession asset recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at its fair value, except as noted in paragraph 12.**

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, *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 or IPSAS 31, as appropriate.**

Recognition and Measurement of Liabilities (see paragraphs AG36–AG50)

14. **Where the grantor recognizes a service concession asset in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor shall also recognize a liability. The grantor shall not recognize a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph 12, except in circumstances where additional consideration is provided by the operator, as noted in paragraph 15.**

15. **The liability recognized in accordance with paragraph 14 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph 11, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.**

16. The nature of the liability recognized is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.

17. In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:

    (a) Making payments to the operator (the "financial liability" model);

    (b) Compensating the operator by other means (the "grant of a right to the operator" model) such as:

        (i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

        (ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial Liability Model (see paragraphs AG37–AG46)

18. **Where the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor shall account for the liability recognized in accordance with paragraph 14 as a financial liability.**

19. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

    (a) Specified or determinable amounts; or

    (b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts referred to in paragraph 19(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

20. IPSAS 28, *Financial Instruments: Presentation*, the derecognition requirements in IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures* apply to the financial liability recognized under paragraph 14, except where this Standard provides requirements and guidance.

21. **The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognized in accordance with paragraph 14, a finance charge, and charges for services provided by the operator.**

22. **The finance charge and charges for services provided by the operator in a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses.**

23. **Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator shall be allocated by reference to the relative fair values of the service concession asset and the services. Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator is determined using estimation techniques.**

Grant of a Right to the Operator Model (see paragraphs AG47–AG49)

24. **Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor shall account for the**

liability recognized in accordance with paragraph 14 as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.

25. **The grantor shall recognize revenue and reduce the liability recognized in accordance with paragraph 24 according to the economic substance of the service concession arrangement.**

26. Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset, the exchange is regarded as a transaction that generates revenue. As the right granted to the operator is effective for the period of the service concession arrangement, the grantor does not recognize revenue from the exchange immediately. Instead, a liability is recognized for any portion of the revenue that is not yet earned. The revenue is recognized according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognized.

Dividing the Arrangement (see paragraph AG50)

27. **If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognized in accordance with paragraph 14. The amount initially recognized for the total liability shall be the same amount as that specified in paragraph 15.**

28. **The grantor shall account for each part of the liability referred to in paragraph 27 in accordance with paragraphs 18–26.**

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraphs AG51–AG54)

29. **The grantor shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 28, IPSAS 29, and IPSAS 30.**

Other Revenues (see paragraphs AG55–AG64)

30. **The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–26, in accordance with IPSAS 9, *Revenue from Exchange Transactions*.**

Presentation and Disclosure (see paragraphs AG65–AG67)

31. **The grantor shall present information in accordance with IPSAS 1.**

32. **All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:**

    (a) **A description of the arrangement;**

    (b) **Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);**

    (c) **The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:**

        (i) **Rights to use specified assets;**

        (ii) **Rights to expect the operator to provide specified services in relation to the service concession arrangement;**

        (iii) **The carrying amount of service concession assets recognized at the end of the reporting period, including existing assets of the grantor reclassified as service concession assets;**

        (iv) **Rights to receive specified assets at the end of the service concession arrangement;**

        (v) **Renewal and termination options;**

        (vi) **Other rights and obligations (e.g., major overhaul of service concession assets); and**

        (vii) **Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and**

    (d) **Changes in the arrangement occurring during the reporting period.**

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 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 and/or IPSAS 31 or may be included in more than one class of assets disclosed in accordance with IPSAS 17 and/or IPSAS 31. For example, for the purposes of IPSAS 17 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.

Transitional

34. **A grantor that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

35. [Deleted]

35A. Paragraphs 13, 32, 33 and AG35 were amended by *Improvements to IPSASs 2015* issued in April 2016. An entity that has previously applied IPSAS 32 shall reassess the classification of service concession assets in accordance with paragraph 13. The entity shall present service concession assets in the revised classification retrospectively in accordance with IPSAS 3.

35B. Where service concessions assets are reclassified in accordance with paragraph 35A, an entity shall account for the service concession assets as follows:

(a) If the service concession assets have previously been measured using the cost model, and the class of assets to which those service concession assets have been reclassified is measured using the cost model, the entity shall continue to apply the cost model. The entity shall carry forward the cost of the service concession assets, along with any accumulated depreciation or amortization and any accumulated impairment losses.

(b) If the service concession assets have previously been measured using the cost model, and the class of assets to which those service concession assets have been reclassified is measured using the revaluation model, the entity shall either:

(i) Revalue the service concession assets; or

(ii) Subject to the requirements in IPSAS 3 dealing with changes in accounting policies, retrospectively apply the cost model to the remaining assets in the class of asset to which those service concession assets have been reclassified. Where information regarding the cost of the assets is not available, the entity may use the carrying amount of the assets as the deemed cost.

(c) If the service concession assets have previously been measured using the revaluation model, and the class of assets to which those service concession assets have been reclassified is measured using the cost model, the entity shall either:

(i) Retrospectively apply the cost model to the service concession assets. Where information regarding the cost of the assets is not available, the entity may use the carrying amount of the service concession assets as the deemed cost; or

(ii) Subject to the requirements in IPSAS 3 dealing with changes in accounting policies, revalue the remaining assets in the class of asset to which those service concession assets have been reclassified.

(d) If the service concession assets have previously been measured using the revaluation model, and the class of assets to which those service concession assets have been reclassified is measured using the revaluation model, the entity shall adjust the revaluation surplus in respect of each class of asset. Where previous revaluation decreases have been recognized in respect of either a service concession asset or one or more assets in the class to which the service concession asset is transferred, the entity shall consider whether transfers between revaluation surplus and accumulated surpluses or deficits are required.

Effective Date

36. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2014, it shall disclose that fact and apply IPSAS 5, *Borrowing Costs*, IPSAS 13, *Leases*, IPSAS 17, IPSAS 29, and IPSAS 31 at the same time.**

36A. **Paragraphs 35 and 37 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

36B. **Paragraphs 13, 32, 33 and AG35 were amended and paragraphs 35A and 35B added by *Improvements to IPSASs 2015* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017 it shall disclose that fact.**

36C. **Paragraphs 3 and 4 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

37. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 32.

Scope (see paragraphs 2–7)

AG1. This Standard is intended to "mirror" Interpretation 12 of the International Financial Reporting Interpretations Committee, *Service Concession Arrangements* (IFRIC 12), which sets out the accounting requirements for the private sector operator in a service concession arrangement. To do so, the scope, principles for recognition of an asset, and terminology are consistent with the applicable guidance in IFRIC 12. However, because this Standard deals with the accounting issues of the grantor, this Standard addresses the issues identified in IFRIC 12 from the grantor's point of view, as follows:

(a) The grantor recognizes a financial liability when it is obliged to make a series of payments to the operator for provision of a service concession asset (i.e., constructed, developed, acquired, or upgraded). Using the measurement requirements specified in this Standard under paragraphs 12, 14, and 20 of IFRIC 12, the operator recognizes revenue for the construction, development, acquisition, upgrade, and operation services it provides. Under paragraph 8 of IFRIC 12, the operator derecognizes an asset that it held and recognized as property, plant, and equipment before entering the service concession arrangement.

(b) The grantor recognizes a liability when it grants the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset. Under paragraph 26 of IFRIC 12, the operator recognizes an intangible asset.

(c) The grantor derecognizes an asset it grants to the operator and over which it no longer has control. Under paragraph 27 of IFRIC 12, the operator recognizes the asset and a liability in respect of any obligations it has assumed in exchange for the asset.

AG2. Paragraph 9 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is within the scope of the Standard. Paragraph 10 of the Standard specifies the condition under which whole-of-life assets are within the scope of the Standard.

Definitions (see paragraph 8)

AG3. Paragraph 8 defines a service concession arrangement. Common features of a service concession arrangement are:

(a) The grantor is a public sector entity;

(b) The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor;

(c) The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement;

(d) The operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and

(e) The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

AG4. Paragraph 8 defines a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services.

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9–13)

Recognition of a Service Concession Asset

AG5. The assessment of whether a service concession asset should be recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

AG6. The control or regulation referred to in paragraph 9(a) could be by a binding arrangement, or otherwise (such as through a third party regulator that regulates other entities that operate in the same industry or sector as the grantor), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. The binding arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement. When the binding arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph 9(a) regarding control in relation to those to whom the operator must provide services.

AG7. For the purpose of paragraph 9(a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, binding arrangement, or a third party regulator that regulates other entities that operate in the same industry or sector (e.g., hospitals, schools, or universities) as the grantor (e.g., by a capping mechanism). However, the condition is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if, for example, an arrangement purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

AG8. Many governments have the power to regulate the behavior of entities operating in certain sectors of the economy, either directly, or through specifically created agencies. For the purpose of paragraph 9(a), the broad regulatory powers described above do not constitute control. In this Standard, the term "regulate" is intended to be applied only in the context of the specific terms and conditions of the service concession arrangement. For example, a regulator of rail services may determine rates that apply to the rail industry as a whole. Depending on the legal framework in a jurisdiction, such rates may be implicit in the binding arrangement governing a service concession arrangement involving the provision of railway transportation, or they may be specifically referred to therein. However, in both cases, the control of the service concession asset is derived from either the contract, or similar binding arrangement, or from the specific regulation applicable to rail services and not from the fact that the grantor is a public sector entity that is related to the regulator of rail service.

AG9. For the purpose of paragraph 9(b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset and give the grantor a continuing right of use throughout the period of the service concession arrangement. The residual interest in the asset is the estimated current value of the asset as if it were already of the age and in the condition expected at the end of the period of the service concession arrangement.

AG10. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 9(a) and any significant residual interest in the asset, the operator is only managing the asset on the grantor's behalf—even though, in many cases, it may have wide managerial discretion.

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 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.

AG12. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph 9(a) and partly unregulated. However, these arrangements take a variety of forms:

(a) Any asset that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in IPSAS 26, *Impairment of Cash-Generating Assets* is analyzed separately to determine whether the condition set out in paragraph 9(a) is met if it is used wholly for unregulated purposes (e.g., this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and

(b) When purely ancillary activities (such as a hospital shop) are unregulated, the control tests are applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 9(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

AG13. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with IPSAS 13.

Existing Asset of the Grantor

AG14. The arrangement may involve an existing asset of the grantor:

(a) To which the grantor gives the operator access for the purpose of the service concession arrangement; or

(b) To which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.

AG15. The requirement in paragraph 11 is to measure assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) initially at fair value. Existing assets of the grantor used in the service concession arrangement are reclassified rather than recognized under this Standard. Only an upgrade to an existing asset of the grantor (e.g., that increases its capacity) is recognized as a service concession asset in accordance with paragraph 9, or paragraph 10 for a whole-of-life asset).

AG16. In applying the impairment tests in IPSAS 17 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 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 13.

AG18. When the service concession arrangement involves upgrading an existing asset of the grantor such that the future economic benefits or service potential the asset will provide are increased, the upgrade is assessed to determine whether it meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset). If those conditions are met, the upgrade is recognized and measured in accordance with this Standard.

Existing Asset of the Operator

AG19. The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired. If the arrangement involves an existing asset of the operator which the operator uses for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognizes the asset as a service concession asset and accounts for it in accordance with this Standard.

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 or IPSAS 31, as appropriate, set out the criteria for when a service concession asset should be recognized. Both IPSAS 17 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[2].

AG21. Those criteria, together with the specific terms and conditions of the binding arrangement, need to be considered in determining whether to recognize the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognize the service concession asset during that period.

AG22. The first recognition criterion requires the flow of economic benefits or service potential to the grantor. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the public sector grantor. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

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 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost 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 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

[2] 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.

concession assets in accordance with paragraph 12 of this Standard. The use of fair value on initial recognition does not constitute a revaluation under IPSAS 17 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:

(a) 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.

(b) 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 and IPSAS 31.

Types of Compensation

AG26. Service concession arrangements are rarely if ever the same; technical requirements vary by sector and by jurisdiction. Furthermore, the terms of the arrangement may also depend on the specific features of the overall legal framework of the particular jurisdiction. Contract laws, where they exist, may contain terms that do not have to be repeated in individual contracts.

AG27. Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) Making payments (e.g., cash) to the operator;

(b) Compensating the operator by other means, such as:

(i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) Granting the operator access to another revenue-generating asset for its use.

AG28. Where the grantor compensates the operator for the service concession asset by making payments to the operator, the asset and service components of the payments may be separable (e.g., the binding arrangement specifies the amount of the predetermined series of payments to be allocated to the service concession asset) or inseparable.

Separable Payments

AG29. A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

(a) Part of a payment stream that varies according to the availability of the service concession asset itself and another part that varies according to usage or performance of certain services are identified;

(b) Different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or

(c) Different components of the service concession arrangement can be renegotiated separately. For example, a service component is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

AG30. IPSAS 17 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.

Inseparable Payments

AG31. Where the asset and service component of payments by the grantor to the operator are not separable, the fair value in paragraph 11 is determined using estimation techniques.

AG32. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the service concession asset and those for other components of the service concession arrangement (e.g., maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to the fair value of a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph 38 of IPSAS 17 and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.

AG34. When the operator is granted the right to earn revenue from third-party users of the service concession asset, or another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the service concession asset. These forms of compensation to the operator are intended to compensate the operator both for the cost of the service concession asset and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph 11.

Subsequent Measurement

AG35. After initial recognition, a grantor applies IPSAS 17 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)

AG36. The grantor recognizes a liability in accordance with paragraph 14 only when a service concession asset is recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset). The nature of the liability recognized in accordance with paragraph 14 differs in each of the circumstances described in paragraph AG25 according to its substance.

The Financial Liability Model (see paragraphs 18–23)

AG37. When the grantor has an unconditional obligation to make a predetermined series of payments to the operator, the liability is a financial liability as defined in IPSAS 29. The grantor has an unconditional obligation if it has little, if any, discretion to avoid the obligation usually because of the binding arrangement with the operator being enforceable by law.

AG38. When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, an amount reflecting the portion of the predetermined series of payments that pertains to the asset is recognized as a liability in accordance with paragraph 14. This liability does not include the finance charge and service components of the payments specified in paragraph 21.

AG39. Where the grantor makes any payments to the operator in advance of the service concession asset being recognized, the grantor accounts for those payments as prepayments.

AG40. The finance charge specified in paragraph 21 is determined based on the operator's cost of capital specific to the service concession asset, if this is practicable to determine.

AG41. If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, is used.

AG42. Where sufficient information is not available, the rate used to determine the finance charge may be estimated by reference to the rate that would be expected on acquiring a similar asset (e.g., a lease of a similar asset, in a similar location and for a similar term). The estimate of the rate should be reviewed together with:

(a) The present value of the payments;

(b) The assumed fair value of the asset; and

(c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.

AG43. In cases when the grantor takes part in the financing (e.g., by lending the operator the funds to construct, develop, acquire, or upgrade a service concession asset, or through guarantees), it may be appropriate to use the grantor's incremental borrowing rate to determine the finance charge.

AG44. The interest rate used to determine the finance charge may not be subsequently changed unless the asset component or the whole of the arrangement is renegotiated.

AG45. The finance charge related to the liability in a service concession arrangement is presented consistently with other finance charges in accordance with IPSAS 28, IPSAS 29, and IPSAS 30.

AG46. The service component of payments determined in accordance with paragraph 21 is ordinarily recognized evenly over the term of the service concession arrangement because this pattern of recognition best corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognized as incurred.

Grant of a Right to the Operator Model (see paragraphs 24–26)

AG47. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset, the operator is granted the right to earn revenue over the period of the service concession arrangement. Likewise, the grantor earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement. Accordingly, the revenue is not recognized immediately. Instead, a liability is recognized for any portion of the revenue that is not yet earned. Revenue is recognized and the liability reduced in accordance with paragraph 25 based on the economic substance of the service concession arrangement, usually as access to the service concession asset is provided to the operator over the term of the service concession arrangement. As described in paragraph AG27, the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In such cases, if the operator's right to earn such third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g., the term over which the grantor's future predetermined series of payments are reduced or eliminated).

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 or IPSAS 31, as appropriate.

AG49. In some cases under the grant of a right to the operator model, there may be a "shadow toll". Some shadow tolls are paid for the construction, development, acquisition, or upgrade of the service concession asset, and its operation by the operator. In cases where the grantor pays the operator solely for the usage of the service concession asset by third-party users, such payment is compensation in exchange for the usage and not the acquisition of the service concession asset. Accordingly, such payments do not relate to the liability specified in paragraph AG48. The grantor compensates the operator only to the extent of the usage of the service concession asset, and accounts for such payments as expenses in accordance with IPSAS 1.

Dividing the Arrangement (see paragraphs 27–28)

AG50. If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from third-party use of either the service concession asset or another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or another revenue-generating asset. Each portion of the liability is recognized initially at the fair value of the consideration paid or payable.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraph 29)

AG51. Service concession arrangements may include various forms of financial guarantees (e.g., a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development, acquisition, or upgrade of a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for short-falls).

AG52. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract and applies IPSAS 28, IPSAS 29, and IPSAS 30 in accounting for the guarantee. Where the guarantee is an insurance contract, the grantor can elect to apply the relevant international or national accounting standard dealing with insurance contracts. See IPSAS 28, paragraphs AG3–AG9 for further guidance.

AG53. Guarantees and commitments that do not meet the requirements in IPSAS 28 and IPSAS 29 relating to financial guarantee contracts or are not insurance contracts are accounted for in accordance with IPSAS 19.

AG54. Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19.

Other Revenues (see paragraph 30)

AG55. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

(a) An upfront payment or a stream of payments;

(b) Revenue-sharing provisions;

(c) A reduction in a predetermined series of payments the grantor is required to make to the operator; and

(d) Rent payments for providing the operator access to a revenue-generating asset.

AG56. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with IPSAS 9. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

AG57. Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to earn the revenue from third-party use of the service concession asset, or another revenue-generating asset, any portion of the payments received from the operator not earned in the accounting period is recognized as a liability until the conditions for revenue recognition are met.

AG58. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognized in accordance with paragraph 30.

AG59. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognizing revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset and/or the time value of money. For example, an annuity method that applies a compounding interest factor that more evenly recognizes revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for a service concession arrangement with a term extending over several decades.

AG60. When an upfront payment is received from the operator, the revenue is recognized in a way that best reflects the operator's economic consumption of its access to the service concession asset and/or the time value of money. For example, when the operator is required to pay annual installments over the term of the service concession arrangement, or predetermined sums for specific years, the revenue is recognized over the specified term.

AG61. For service concession arrangements under which the operator is granted the right to earn revenue from third-party users of the service concession asset, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognized on the same basis as the liability is reduced. In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue-sharing as part of a service concession arrangement may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.

AG62. The grantor recognizes revenue generated from revenue-sharing provisions in service concession arrangements as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies IPSAS 19 to determine when the contingent event has occurred.

AG63. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognized as the liability is reduced.

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).*

Presentation and Disclosure (see paragraphs 31−33)

AG65. Disclosures relating to various aspects of service concession arrangements may be addressed in existing Standards. This Standard addresses only the additional disclosures relating to service concession arrangements. Where the accounting for a particular aspect of a service concession arrangement is addressed in another Standard, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph 32.

AG66. IPSAS 1 requires finance costs to be presented separately in the statement of financial performance. The finance charge determined in accordance with paragraph 21 is included in this item.

AG67. In addition to the disclosures outlined in paragraphs 31−33, the grantor also applies the relevant presentation and disclosure requirements in other IPSASs as they pertain to assets, liabilities, revenues, and expenses recognized under this Standard.

Transition (see paragraphs 34−35)

AG68. [Deleted]

AG69. [Deleted]

AG70. [Deleted]

AG71. [Deleted]

AG72. [Deleted]

AG73. [Deleted]

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 32.

Objective

BC1. In the absence of an International Public Sector Accounting Standard dealing with service concession arrangements, public sector entities are directed, in IPSAS 1, *Presentation of Financial Statements* to look to other international or national accounting standards. In the case of arrangements involving private sector participation, they would try to apply the principles in Interpretation 12 of the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC 12), *Service Concession Arrangements*. However, IFRIC 12 addresses accounting by the operator, and does not, therefore, provide guidance for the grantor. The IPSASB believes this Standard will promote consistency and comparability in how service concession arrangements are reported by public sector entities.

Scope

BC2. After considering the various types of arrangements involving public and private sector entities identified in the development of the March 2008 Consultation Paper, *Accounting and Financial Reporting for Service Concession Arrangements*, the IPSASB concluded that the scope of this Standard should be the mirror of IFRIC 12, in particular, the criteria under which the grantor recognizes a service concession asset (see paragraphs BC11–BC16). The rationale for this decision is that this approach would require both parties to the same arrangement to apply the same principles in determining which party should recognize the asset used in a service concession arrangement. Thus, arrangements in which the criteria for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset) are not satisfied, are outside the scope of this IPSAS. The IPSASB considers that this approach minimizes the possibility for an asset to be accounted for by both of the parties, or by neither party.

BC3. The IPSASB recognized that the Standard should provide Implementation Guidance on the relevant IPSASs that apply to arrangements outside the scope of the Standard. The Implementation Guidance contains a flowchart illustrating the application of this Standard as well as a table of references to relevant IPSASs for the other types of arrangements that are outside the scope of this Standard.

BC4. The IPSASB concluded that it was important to provide guidance on accounting for the consideration given by the grantor to the operator for the service concession asset. The consideration may give the operator rights to a determinable series of payments of cash or cash equivalents or a right to earn revenue from third-party users of the service concession asset or another revenue-generating asset for its use, or a combination of both types of consideration. Each type of consideration results in specific accounting issues on which the IPSASB has provided guidance to facilitate consistent application of the Standard.

BC5. The IPSASB also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions).

BC6. This Standard does not specify the accounting by operators, because it is addressed in IFRIC 12. In many cases the operator is a private sector entity, and IPSASs are not designed to apply to private sector entities. The operator or the grantor may also be a [Government Business Enterprise (GBE)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016). When this Standard was issued, IPSASs were not designed to apply to GBEs. International Financial Reporting Standards (IFRSs) were applied to private sector entities and GBEs.

BC7. Some respondents to ED 43 suggested that the scope of the proposed Standard should be extended to include public-to-public service concession arrangements. The IPSASB noted that addressing the accounting for such arrangements was not the primary purpose of the project which was to address the cases when the grantor is a public sector entity that follows accrual IPSASs. The IPSASB noted that application of this Standard by analogy would be appropriate under paragraphs 12–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for the public sector grantor and that relevant international or national accounting standard dealing with service concession arrangements may be applied by the public sector operator

Definitions

BC8. ED 43 did not provide definitions because IFRIC 12 did not do so. Accordingly, ED 43 provided guidance on certain terminology. Respondents to ED 43 proposed that, because this is a Standard and not an Interpretation, it was important to include definitions for consistency in application of the Standard. The IPSASB agreed that this Standard should include definitions.

BC9. The IPSASB agreed not to use the term "infrastructure" to refer to the asset used in a service concession arrangement, even though IFRIC 12 uses the term. The IPSASB noted that the term is used in IPSASs in ways that may not be fully compatible with this Standard. Further, the term has a prescribed meaning in some jurisdictions that differs from that used in IFRIC 12. To ensure clarity that the asset referred to is the one recognized on the basis of the conditions for recognition in paragraph 9 of this Standard (or paragraph 10 for a whole-of-life asset), the asset in this Standard is referred to as the "service concession asset". This term is intended to cover the same types of assets as envisaged in IFRIC 12.

BC10. The term "binding arrangement" had not been defined previously, but has been used in other IPSASs to describe arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract. The IPSASB concluded that for the purposes of this Standard, this term should be defined to ensure consistent application of the Standard.

Recognition of a Service Concession Asset

BC11. The main accounting issue in service concession arrangements is whether the grantor should recognize a service concession asset.

BC12. The IPSASB considered the merits of the risks and rewards and the control-based approach to assess whether the grantor should recognize the asset. The risks and rewards approach focuses on the economic aspects of the terms and conditions in the arrangement. The IPSASB did not believe this focus to be appropriate for service concession arrangements because the primary purpose of a service concession asset, from the grantor's point of view, is to provide specified public services on behalf of the grantor using a service concession asset, and not to provide economic benefits such as revenue generated by such assets (e.g., from user fees). Thus, the service potential of the asset accrues to the grantor. Economic benefits are only likely to arise from a service concession arrangement in circumstances where the operator is granted the right to earn revenue from third-party users, of either the service concession asset or another revenue-generating asset. A control-based approach focuses on control over the economic benefits and the service potential of the service concession asset.

BC13. As it is often the case that service concession arrangements are entered into for the sharing of risks between the grantor and the operator, the IPSASB also questioned whether sufficiently objective criteria could be established for assessing risks and rewards to enable consistent results to be determined. In addition, weighting of various risks and rewards was seen to be problematic. The IPSASB concluded, therefore, that the risks and rewards approach is inappropriate.

BC14. The IPSASB also considered whether a rights and obligations approach was appropriate. Although such an approach could have conceptual merit, the IPSASB believes that it would represent a significant change in the accounting and financial reporting of assets and liabilities for public sector entities that could have implications beyond service concession arrangements. Given the IPSASB's decision to complement IFRIC 12, which uses a control-based approach, the IPSASB agreed that a rights and obligations approach was not appropriate for this Standard.

BC15. The IPSASB concluded that a control-based approach was the most effective means to determine whether the grantor should recognize the asset. The IPSASB concluded that if a control-based approach is used, it should be consistent with IFRIC 12, for the same reasons cited in paragraph BC2. Accordingly, this Standard addresses only arrangements in which the grantor (a) controls or regulates the services provided by the operator, and (b) controls any significant residual interest in the service concession asset at the end of the term of the arrangement. Consistent with IFRIC 12, in the case of whole-of-life assets, only condition (a) must be met for recognition of a service concession asset. The IPSASB concluded that it was important to stress that a service concession arrangement is a binding arrangement. Accordingly, the assessment of whether a service concession asset should be recognized is made on the basis of all of the facts and circumstances of the arrangement.

BC16. Paragraph 9(a) of this Standard is consistent with paragraph 5 of IFRIC 12. It is intended to apply only to the regulation that is specific to the service concession arrangement, and not to the broad understanding of public sector regulatory powers from the grantor's point of view. The regulation referred to in paragraph 9(a) of this Standard is either by contract or through a regulator. Guidance is provided in paragraph AG6 on applying the term "regulates" in paragraph 9(a) to determine whether the grantor should recognize a service concession asset. Some respondents to ED 43 asserted that providing such additional guidance creates an asymmetry with IFRIC 12, as there is no additional guidance on the meaning of this term. The IPSASB considers the additional guidance provided in paragraph AG6 is necessary to ensure symmetry exists between the public sector grantor's and the private sector operator's application of the "regulates" criterion in determining whether to recognize the service concession asset, as the public sector may have considered the term in the context of the broad regulatory powers of governments.

Recognition of a Liability

BC17. ED 43 described two circumstances that may give rise to a liability when the grantor recognizes a service concession asset, based on the nature of the consideration due to the operator in exchange for the service concession asset.

BC18. ED 43 proposed that when the grantor recognizes a service concession asset, a liability shall also be recognized. The ED noted that this liability may be any combination of a financial liability and a performance obligation. ED 43 proposed that a financial liability occurs when the grantor has a determinable series of cash payments of cash or cash equivalents to make to the operator and a performance obligation occurs when the grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. ED 43 proposed that the grantor account for the performance obligation in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

BC19. Respondents to ED 43 sought clarification on this issue, particularly with respect to the "performance obligation" identified in ED 43. Respondents' concerns are summarized below.

(a) The right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset was seen by some respondents as independent of the compensation for the asset. These respondents highlighted that the requirement to provide access is a feature of most service concession arrangements, and if this is to be recognized, such recognition should not be dependent on the non-occurrence of a payment stream from the grantor to the operator.

(b) While being described as a performance obligation, there is no obligation for an outflow of economic resources from the grantor in future periods. These respondents therefore question whether a liability as defined in IPSAS 1, or a provision as defined in IPSAS 19 could be fairly represented to exist.

BC20. In addition, a number of other respondents, possibly as a result of the above concerns, requested clarification of the meaning of "performance obligation" in the ED. A few of these respondents queried whether the substance of the nature of this "balancing item" was deferred revenue.

BC21. The IPSASB agreed that clarification of this issue was required. The IPSASB noted that using the term "performance obligation" could give rise to confusion because it is used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions.

BC22. In IFRIC 12, when the operator does not control the service concession asset, the operator recognizes either a financial asset, or an intangible asset, depending on which party bears the demand risk. The IPSASB agreed that, to maintain symmetry with IFRIC 12, the same approach should be adopted for the grantor. Thus, two models are identified for accounting for the credit when the grantor recognizes a service concession asset in accordance with this Standard: the financial liability model, and the grant of a right to the operator model (which replaces the "performance obligation").

BC23. The IPSASB's decision to amend the terminology used in ED 43 from "performance obligation" to the Standard's use of "liability" does not change the grantor's accounting treatment of a service concession arrangement from that proposed in ED 43.

The Financial Liability Model

BC24. Where the grantor compensates the operator by the delivery of cash or another financial asset in exchange for its control of a service concession asset, IFRIC 12 classifies this type of arrangement as the "financial asset model" because the operator receives a financial asset. This Standard refers to this type of arrangement as the "financial liability model" because the grantor has a financial liability.

BC25. A financial liability arises in cases when the grantor is obligated to make a determinable series of payments to the operator because the grantor has an obligation as a result of the binding arrangement to deliver cash or another financial asset to another entity (the operator). The IPSASB concluded further that when there is a determinable series of payments of cash or cash equivalents, the payments should be allocated as a reduction of the liability, an imputed finance charge, and charges for services provided by the operator under the service concession arrangement.

BC26. Service concession arrangements are concluded by way of a binding arrangement, which may include contracts or similar arrangements that confer similar rights and obligations on the parties as if they were in the form of a contract. The IPSASB concluded that, if similar arrangements exist that confer the same rights and obligations on either party as if they were in the form of a contract, IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures* should be applied by analogy to such arrangements.

BC27. In considering a departure from this aspect of IFRIC 12, the IPSASB noted that the main features of IFRIC 12 that were the subject of the "mirror" approach to developing this Standard were limited to the scope of the arrangements to be included and the recognition and disclosure requirements.

BC28. IFRIC 12 requires the financial asset to be accounted for in accordance with the IFRS on financial instruments. This Standard provides guidance for determining the interest rate to be used to determine the finance charge under the financial liability model. The IPSASB considered the grantor ordinarily would not have sufficient information to determine a market rate. Accordingly, the guidance requires the operator's cost of capital to be used, if that is practicable to determine. It also permits other rates to be used appropriate to the specific terms and conditions of the service concession arrangement.

Grant of a Right to the Operator Model

BC29. In responding to the issues raised by respondents to ED 43, the IPSASB reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the Board referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue.

BC30. Where the operator bears the demand risk, the grantor compensates the operator by the grant of a right (e.g., a license) to charge users of the public service related to the service concession asset or of another revenue-generating asset. The grantor provides the operator access to the asset in order for the operator to be compensated for construction, development, acquisition, or upgrade of the service concession asset. IFRIC 12 classifies this type of arrangement as the "intangible asset model." This Standard refers to this type of arrangement as the "grant of a right to the operator model."

BC31. The IPSASB therefore considered whether the credit should be accounted for as a liability, as a direct increase to net assets/equity, or as revenue.

BC32. It was agreed that, in this circumstance, the grantor does not have a liability because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC33. Some respondents to ED 43 indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

(a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;

(b) Accumulated surpluses or deficits;

(c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and

(d) Non-controlling interests.

BC34. The IPSASB concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

(a) Contributions from owners are defined as "future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed." The credit related to the recognition of a service concession asset does not meet this definition because the operator has not made a contribution to the grantor that results in a financial interest in the entity by the operator as envisaged by IPSAS 1.

(b) Accumulated surplus/deficit is an accumulation of an entity's surpluses and deficits. The credit related to recognition of a service concession asset represents an individual transaction and not an accumulation.

(c) Reserves generally arise from items recognized directly in net assets/equity from specific requirements in IPSASs, and may include, for example, gains and losses on revaluation of assets (e.g., property, plant, and equipment, investments). The credit related to the recognition or reclassification of a service concession asset does not represent a gain or loss specified to be directly recognized in net/assets equity because it involves an exchange transaction and not a revaluation of an existing asset of the grantor. Existing assets of the grantor, when used in a service concession arrangement and continue to meet the control criteria in this Standard, are reclassified, thus no revaluation is done.

(d) A non-controlling interest is defined as "that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity." A non-controlling interest may arise, for example, when at the whole-of-government level, the economic entity includes a commercial public sector entity that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity. The credit related to the recognition of a service concession asset does not meet this definition because operator does not have such a financial interest in the grantor.

BC35. The IPSASB agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC36. The IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result is consistent with IPSAS 9 in which an entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues.

BC37. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

BC38. IPSAS 9 identifies three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB considered these types of transactions separately.

BC39. The IPSASB considered the approaches to revenue recognition set out in IPSAS 9 in relation to the "grant of a right to the operator" model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC40. The IPSASB considered whether the grantor should recognize the operating expenses in the circumstances described in paragraph BC30 relating to the grant of a right to the operator model. The IPSASB noted that the grantor's liability recognized relates solely to the service concession asset received by the grantor. If the service expenses were recognized, the grantor would also have to recognize annually imputed revenue equal to the annual expense. The IPSASB did not believe this accounting would provide useful information, because revenue and an expense of equal amounts would be recognized annually. The IPSASB noted further that reliable information about the operator's expenses may not be available in any case. The IPSASB therefore concluded that the grantor should not recognize operating expenses associated with the service concession arrangement in the circumstances described in paragraph BC30.

Accounting Issues Addressed in Other IPSASs

BC41. Because of the complexity of many service concession arrangements, there may be additional accounting issues related to certain terms in the contract, or a similar binding arrangement (e.g., revenues, expenses, guarantees, and contingencies). The IPSASB agreed that it was not necessary to repeat such existing guidance in this Standard. Accordingly, when an existing IPSAS specifies the accounting and reporting for a component of a service concession arrangement, that IPSAS is referred to in this Standard and no additional guidance is provided. However, the IPSASB noted some cases (e.g., revenue recognition), when the application of such IPSASs would be difficult given certain unique features in service concession arrangements. To ensure consistent implementation of this Standard, the IPSASB provided specific guidance on how the principles in the other IPSAS would be applied.

Transition

BC42. This Standard requires an entity that has previously recognized service concession assets and related liabilities, revenues, and expenses to apply this Standard retrospectively in accordance with IPSAS 3. The Standard also requires an entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting to apply this Standard either retrospectively or prospectively using deemed cost from the beginning of the earliest period for which comparative information is presented in the financial statements.

BC43. The general requirement in IPSAS 3 is that the changes should be accounted for retrospectively, except to the extent that retrospective application would be impracticable. The IPSASB noted that there are two aspects to retrospective determination: reclassification and remeasurement. The IPSASB took the view that it will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in a grantor's statement of financial position, but that retrospective remeasurement of service concession assets might not always be practicable, particularly if an entity has not previously recognized service concession assets and related liabilities, revenues, and expenses.

BC44. The IPSASB noted that, when retrospective restatement is not practicable, IPSAS 3 requires prospective application from the earliest practicable date, which could be the start of the current reporting period.

BC45. The transitional provisions in this Standard for entities that have not previously recognized service concession assets were amended from ED 43 because some respondents to ED 43 questioned why the general requirement in IPSAS 3 is not also appropriate for an entity that has not previously recognized service concession arrangements. ED 43 required prospective application in such cases, but permitted retrospective application.

BC46. When developing ED 43 the IPSASB had concerns relating to the practicality of determining the measurement of a service concession asset, and considered that this could result in inconsistent treatment of arrangements entered into in the past. This was a similar issue to that which arose in finalizing IPSAS 31, *Intangible Assets*. On that basis, the IPSASB considered it appropriate to propose transitional provisions in ED 43 that were consistent with those in IPSAS 31.

BC47. However, the IPSASB noted that the circumstances surrounding intangible assets differ from those in service concession arrangements. Notably, service concession arrangements generally involve long-term binding arrangements for which information required to develop fair value and cost information would likely be more readily available than it is for intangible assets acquired or developed in the past, even in cases where an entity had not previously recognized service concession assets.

BC48. The IPSASB did however acknowledge that because many of these arrangements may have been entered into some time ago, it may be difficult to apply full retrospective application. As a result, the IPSASB considered that a "deemed cost" could be used to recognize and measure service concession assets.

Revision of IPSAS 32 as a result of Part II of *Improvements to IPSASs 2015*: issues raised by stakeholders

BC49. 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 be 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 not the intention of the IPSASB to require that dissimilar assets be reported as if they were similar, the IPSASB decided to propose clarifications to IPSAS 32 to make its intentions clear. The IPSASB considered whether these changes would reduce the information available to users, but is satisfied that the current disclosure requirements, in particular those in paragraph 32, ensure high quality disclosures about assets subject to service concession arrangements.

BC50. The IPSASB 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 be reclassified into a class of assets measured using the cost model. Equally, some service concession assets measured using the cost model, might be 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 agreed to permit entities to select the measurement basis to be applied at the point of reclassification. The IPSASB also noted that the information required to retrospectively apply the cost model might not be readily available. Consequently, the IPSASB 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 elects to measure a class of assets using the cost model.

Revision of IPSAS 32 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC51. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

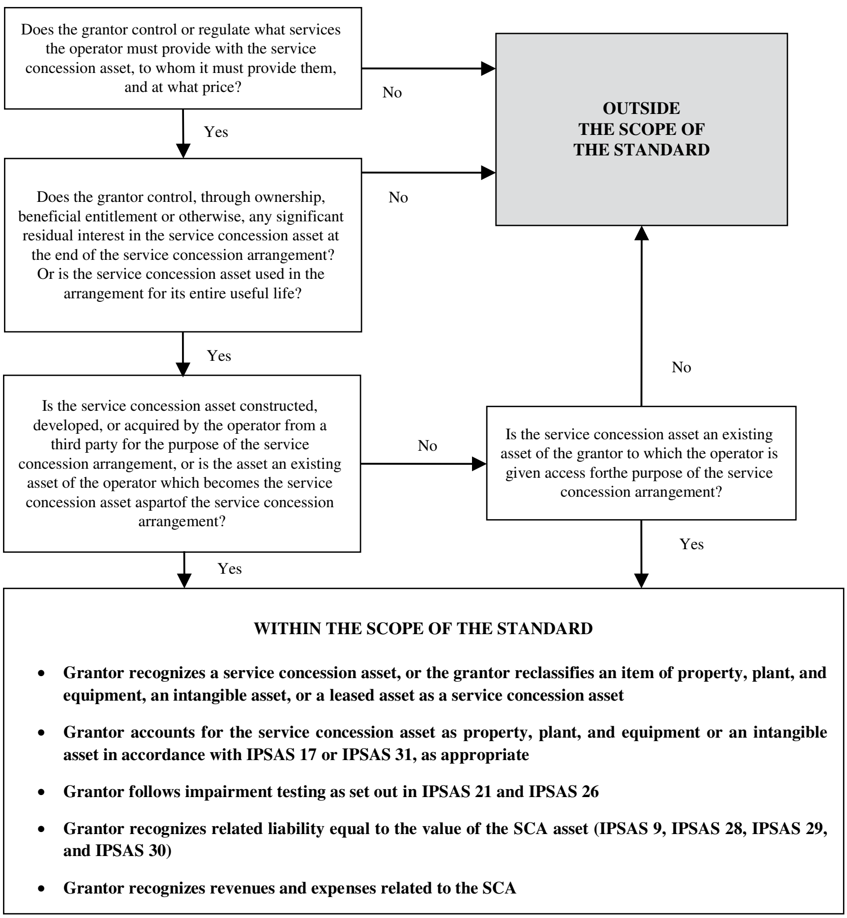
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 32.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 32.

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

IG3. The table sets out the typical types of arrangements for private sector participation in the provision of public sector services and provides references to IPSASs that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements. It is not the IPSASB's intention to convey the impression that bright lines exist between the accounting requirements for various types of arrangements.

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 13	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) IPSAS 9 (revenue recognition)	

Illustrative Examples

These examples accompany, but are not part of, IPSAS 32.

IE1. These examples deal with only three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

Arrangement Terms (Common to All Three Examples)

IE2. In these examples, monetary amounts are denominated in "currency units" (CU).

IE3. These terms are common to the three examples that follow:

IE4. The terms of the arrangement require an operator to construct a road—completing construction within two years—and maintain and operate the road to a specified standard for eight years (i.e., years 3–10). The arrangement is within the scope of this Standard and the road meets the conditions for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset).

IE5. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

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 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.[3] 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

[3] If this was not the case (e.g., where the operator might resurface in future, or might incur additional maintenance over the period of the service concession arrangement), it might not be appropriate to recognize a component.

estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base, 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.

IE7. Recognition of the replacement component of the road surface as a separate component of the service concession asset in year 8 also results in an increase in the liability recognized by the grantor. Where the liability relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognized evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it would be appropriate to instead recognize revenue relevant to that improvement only once it has occurred.

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). 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.

IE9. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore CU38 (940/25) for the base layers. The surface layers are depreciated over 6 years (years 3–8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is CU18 (CU110/6). There is no impairment in the value of the road over the term of the service concession arrangement.

IE10. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.

IE11. It is assumed that all cash flows take place at the end of the year.

IE12. It is assumed that the time value of money is not significant. Paragraph AG59 provides guidance on methods that may be appropriate where the time value of money is significant.

IE13. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the operation of the road to the grantor.

IE14. The total compensation to the operator under each of the three examples is inclusive of each of the components of the service concession arrangement and reflects the fair values for each of the services, which are set out in Exhibit 1.

IE15. The grantor's accounting policy for property, plant, and equipment is to recognize such assets using the cost model specified in IPSAS 17.

Exhibit 1: Fair Values of the Components of the Arrangement (Currency Units)

Contact Component	Fair Value
Road – base layers	940
Road – original surface layers	110
Total FV 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

Additional Terms

IE16. The terms of the arrangement require the grantor to pay the operator CU200 per year in years 3–10 for making the road available to the public. The total consideration (payment of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE17. The grantor initially recognizes 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.

IE18. The grantor initially recognizes a financial liability at fair value equal to the fair value of the asset under construction at the end of year 1 (CU525).

The liability is increased at the end of year 2 to reflect both the fair value of the additional construction (CU525) and the finance charge on the outstanding financial liability. Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE19. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE20. The compensation for maintenance and operating the road (CU12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognizes an expense annually.

IE21. The costs of services are accounted for in accordance with IPSAS 1.

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 1.1 Cash Flows (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Predetermined series of payments	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

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 of IPSAS 17 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 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.

Table 1.4 Changes in Financial Liability (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	525	1,082	961	832	695	550	396	343	177
Liability recognized along with initial service concession asset	525	525	–	–	–	–	–	–	–	–
Finance charge added to liability prior to payments being made	–	32	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	525	1,082	961	832	695	550	396	343	177	–

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE23. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU200 in each of years 3–10. The total consideration (tolls of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1, and is intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE24. The grantor initially recognizes 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 in year 3).

IE25. As consideration for the service concession asset, the grantor recognizes a liability under the grant of a right to the operator model for granting the operator the right to collect tolls of CU200 in years 3–10. The liability is recognized as the asset is recognized.

IE26. The liability is reduced over years 3–10, and the grantor recognizes revenue on that basis because access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement from the point at which the asset is capable of providing economic benefits.

IE27. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE28. The compensation for maintenance and operating the road (CU12) is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash outflow. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE29. 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 2.1 to 2.3. In addition, Table 2.4 shows the changes in the liability.

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 Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	–	–	145	145	145	145	145	145	145	145	1160
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)	–	–	89	88	89	89	88	89	89	88	709

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.3).
4. All revenue is recognized evenly over the term of the arrangement.

Table 2.3 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	–	–	–	–	–	–	–	–	–	–
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	–
Cumulative surplus/deficit	–	–	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

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 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 2.2).
3. The liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 2.4 Changes in Liability (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	525	1,050	905	760	615	470	325	290	145
Liability recognized along with initial service concession asset	525	525	–	–	–	–	–	–	–	–
Revenue (reduction of liability)	–	–	(145)	(145)	(145)	(145)	(145)	(145)	(145)	(145)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	525	1,050	905	760	615	470	325	290	145	–

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

Additional Arrangement Terms

IE31. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU100 in each of years 3–10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of CU100 annually. The fair value of the right to collect tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).

Financial Statement Impact

IE32. The grantor initially recognizes 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).

IE33. As consideration for the service concession asset, the grantor recognizes both a liability under the grant of a right to the operator model by granting the operator the right to collect tolls of CU100 in years 3–10, and a financial liability to make payments of CU100 in years 3–10. A liability and a financial liability are recognized as the asset is recognized at the end of year 1 (CU525). The liability and financial liability are increased at the end of year 2 to reflect both the fair value of the additional construction (CU525) and the finance charge on the outstanding financial liability.

IE34. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore in this arrangement it is necessary to divide the grantor's consideration to the operator into two parts—a liability and a financial liability.

IE35. The liability of CU525 (recognized evenly at the end of years 1 and 2) is reduced over years 3–10, and the grantor recognizes revenue on the same basis because the tolls are expected to be earned evenly over the term of the service concession arrangement from the point at which the asset is capable of providing service benefits.

IE36. The grantor initially recognizes a financial liability at fair value equal to half of the fair value of the asset (CU525), recognized evenly at the end of years 1 and 2; a liability under the grant of a right to the operator model is recognized in an amount equal to the other half of the fair value of the asset. The financial liability is also increased at the end of year 2 by the finance charge on the outstanding financial liability. Because the amount of the predetermined payments related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE37. The operator is compensated for the road resurfacing (CU110) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the series of predetermined payments (i.e., 50% from each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE38. The operator is compensated for maintenance and operating the road (CU12) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the predetermined payment (i.e., 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognizes an expense annually for the portion of the compensation related to the series of predetermined payments (CU6). There is no financial statement impact for the remaining CU6 of this service expense. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

IE39. 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 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.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

Table 3.1 Cash Flows (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Predetermined series of payments	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/ (outflow)	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

Table 3.2 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	–	–	73	72	73	72	73	72	73	72	580
Service expense	–	–	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	–	(16)	(33)	(30)	(26)	(22)	(17)	(12)	(11)	(5)	(172)
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)	–	(16)	(22)	(21)	(15)	(12)	(7)	(2)	–	4	(91)

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 3.3).
4. All revenue is recognized evenly over the term of the arrangement.

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:

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 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 3.2).
3. The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.
4. The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Table 3.4 Changes in Liability (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	–	262	525	452	380	307	235	162	145	72
Liability recognized along with initial service concession asset	262	263	–	–	–	–	–	–	–	–
Revenue (reduction of liability)	–	–	(73)	(72)	(73)	(72)	(73)	(72)	(73)	(72)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–
Balance carried forward	262	525	452	380	307	235	162	145	72	–

Table 3.5 Changes in Financial Liability (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	–	263	541	480	416	348	276	199	172	89
Liability recognized along with initial service concession asset	263	262	–	–	–	–	–	–	–	–
Finance charge added to liability prior to payments being made	–	16	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(61)	(64)	(68)	(72)	(77)	(82)	(83)	(89)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–
Balance carried forward	263	541	480	416	348	276	199	172	89	–

IPSAS 33—FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs)

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* was issued in January 2015.

Since then, IPSAS 33 has been amended by the following IPSASs:

- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)

Table of Amended Paragraphs in IPSAS 33

Paragraph Affected	How Affected	Affected By
7	Deleted	The Applicability of IPSASs April 2016
8	Deleted	The Applicability of IPSASs April 2016
36	Amended	IPSAS 39 July 2016
39	Amended	Improvements to IPSASs April 2016
62A	New	IPSAS 40 January 2017
62B	New	IPSAS 40 January 2017
62C	New	IPSAS 40 January 2017
86	Amended	IPSAS 40 January 2017
102	Amended	IPSAS 39 July 2016
104	Amended	IPSAS 39 July 2016
105	Amended	IPSAS 39 July 2016
106	Deleted	IPSAS 39 July 2016

Paragraph Affected	How Affected	Affected By
107	Deleted	IPSAS 39 July 2016
129	Amended	IPSAS 40 January 2017
130	Amended	IPSAS 40 January 2017
132	Amended	IPSAS 40 January 2017
154A	New	The Applicability of IPSASs April 2016
154B	New	IPSAS 39 July 2016
154C	New	IPSAS 40 January 2017

January 2015

IPSAS 33—FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs)

CONTENTS

International Public Sector Accounting Standard 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* is set out in paragraphs 1–154. All the paragraphs have equal authority. IPSAS 33 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to provide guidance to a first-time adopter that prepares and presents financial statements following the adoption of accrual basis IPSASs, in order to present high quality information:

   (a) That provides transparent reporting about a first-time adopter's transition to accrual basis IPSASs;

   (b) That provides a suitable starting point for accounting in accordance with accrual basis IPSASs irrespective of the basis of accounting the first-time adopter has used prior to the date of adoption; and

   (c) Where the benefits are expected to exceed the costs.

Scope

2. **An entity shall apply this IPSAS when it prepares and presents its annual financial statements on the adoption of, and during the transition to, accrual basis IPSASs.**

3. This IPSAS applies when an entity first adopts accrual basis IPSASs and during the transitional period allowed in this IPSAS. It does not apply when, for example, a first-time adopter:

   (a) Stops presenting financial statements in accordance with prescribed requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with accrual basis IPSASs;

   (b) Presented financial statements in the previous reporting period in accordance with prescribed requirements and those financial statements contained an explicit and unreserved statement of compliance with accrual basis IPSASs; or

   (c) Presented financial statements in the previous reporting period that contained an explicit and unreserved statement of compliance with accrual basis IPSASs, even if the auditors modified their audit report on those financial statements.

4. This Standard shall be applied from the date on which a first-time adopter adopts accrual basis IPSASs and during the period of transition. This Standard permits a first-time adopter to apply transitional exemptions and provisions that may impact fair presentation. Where these transitional exemptions and provisions are applied, a first-time adopter is required to disclose information about the transitional exemptions and provisions adopted, and progress towards fair presentation and compliance with accrual basis IPSASs.

5. At the end of the transitional period a first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in

the other accrual basis IPSAS in order to assert compliance with accrual basis IPSASs as required in IPSAS 1, *Presentation of Financial Statements*.

6. This IPSAS does not apply to changes in accounting policies made by an entity that already applies IPSASs. Such changes are the subject of:

    (a) Requirements on changes in accounting policies in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

    (b) Specific transitional requirements in other IPSASs. The transitional provisions in other IPSASs apply only to changes in accounting policies made by an entity that already applies accrual basis IPSASs; they do not apply to a first-time adopter's transition to IPSASs, except as specified in this IPSAS.

7. [Deleted]

8. [Deleted]

Definitions

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

    <u>Date of adoption of IPSASs</u> 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.

    <u>Deemed cost</u> is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.

    <u>First IPSAS financial statements</u> are the first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with those IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.

    <u>First-time adopter</u> is an entity that adopts accrual basis IPSASs for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

    <u>Opening statement of financial position</u> is a first-time adopter's statement of financial position at the date of adoption of IPSASs.

    <u>Period of transition</u> is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies

with the accrual basis IPSASs, and before it is able to make an explicit and unreserved statement of such compliance with IPSASs.

Previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs.

Transitional IPSAS financial statements are the financial statements prepared in accordance with this IPSAS where a first-time adopter cannot make an explicit and unreserved statement of compliance with other IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.

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.

Date of Adoption of IPSASs

10. The date of adoption of IPSASs is the date that an entity adopts accrual basis IPSASs for the first time. It is the start of the reporting period in which the first-time adopter adopts accrual basis IPSASs and for which it presents its first transitional IPSAS financial statements or its first IPSAS financial statements. If a first-time adopter takes advantage of the exemptions in this IPSASs that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 36–62) in producing its first transitional IPSAS financial statements, it can only make an explicit and unreserved statement of compliance with accrual basis IPSASs when the exemptions that provided the relief have expired, and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier). Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of all the applicable IPSASs.

First IPSAS Financial Statements

11. An entity's first IPSAS financial statements are the first annual financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis IPSASs. If a first-time adopter does not adopt the exemptions in this IPSAS that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 36–62), its first financial statements following the adoption of accrual basis IPSASs will also be its first IPSAS financial statements.

Previous Basis of Accounting

12. The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs. This might be a cash basis of accounting, an accrual basis of accounting, a modified

version of either a cash basis or an accrual basis of accounting, or another prescribed basis.

Transitional IPSAS Financial Statements

13. An entity's transitional IPSAS financial statements are the annual financial statements in which an entity transitions to accrual basis IPSASs and adopts certain exemptions in this IPSAS that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs. If a first-time adopter adopts the exemptions in this IPSASs that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 36–62), it will not be able to make an explicit and unreserved statement of compliance with other accrual basis IPSASs until the exemptions that provided the relief in this IPSAS have expired and/or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSASs (whichever is earlier). Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of all the applicable IPSASs.

14. An entity's transitional IPSAS financial statements are those financial statements, where the entity transitions from another accounting basis such as when it:

    (a) Prepared its most recent previous financial statements in accordance with the IPSAS, *Financial Reporting Under the Cash Basis of Accounting*;

    (b) Presented its most recent previous financial statements:

        (i) In accordance with prescribed requirements that are not consistent with IPSASs in all respects;

        (ii) In conformity with IPSASs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IPSASs;

        (iii) Containing an explicit statement of compliance with some, but not all, IPSASs, including the adoption of the exemptions provided in this IPSAS that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 36–62);

        (iv) In accordance with prescribed requirements inconsistent with IPSASs, using some individual IPSASs to account for items for which prescribed requirements did not exist; or

        (v) In accordance with prescribed requirements, with a reconciliation of some amounts to the amounts determined in accordance with IPSASs;

    (c) Prepared financial statements in accordance with IPSASs for internal use only, without making them available to external users;

(d) Prepared a reporting package in accordance with IPSASs for consolidation purposes without preparing a complete set of financial statements as defined in IPSAS 1; or

(e) Did not present financial statements for previous periods.

Recognition and Measurement

Opening Statement of Financial Position on Adoption of IPSASs

15. **A first-time adopter shall prepare and present an opening statement of financial position at the date of adoption of IPSASs. This is the starting point for its accounting in accordance with accrual basis IPSASs.**

Accounting Policies

16. **On the date of adoption of accrual basis IPSASs, a first-time adopter shall apply the requirements of the IPSASs retrospectively except if required, or otherwise permitted, in this IPSAS.**

17. **A first-time adopter shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in paragraphs 36–134. The accounting policies shall comply with each IPSAS effective at the date of adoption of IPSASs, except as specified in paragraphs 36–134.**

18. A first-time adopter that takes advantage of the exemptions in paragraph 36–134 will be required to amend its accounting policies after the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier).

19. A first-time adopter shall apply the versions of accrual basis IPSASs effective at the date of adoption of IPSASs. A first-time adopter may apply a new IPSAS that is not yet mandatory if that IPSAS permits early application. Any new IPSASs that become effective during the period of transition shall be applied by the first-time adopter from the date it becomes effective.

20. Except as described in paragraphs 36–134, a first-time adopter shall, in its opening statement of financial position:

    (a) Recognize all assets and liabilities whose recognition is required by IPSASs;

    (b) Not recognize items as assets or liabilities if IPSASs do not permit such recognition;

    (c) Reclassify items that it recognized in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSASs; and

(d) Apply IPSASs in measuring all recognized assets and liabilities.

21. The accounting policies that a first-time adopter uses in financial statements may differ from those that it used at the end of its comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of adoption of IPSASs. Therefore, a first-time adopter shall recognize those adjustments to the opening balance of accumulated surplus or deficit in the period in which the items are recognized and/or measured (or, if appropriate, another category of net assets/equity). The first-time adopter shall recognize these adjustments in the earliest period presented.

22. The transitional exemptions and provisions in other IPSAS apply to changes in accounting policies made by an entity that already applies accrual basis IPSASs. The transitional exemptions and provisions in this IPSAS applies to a first-time adopter that prepares and presents its annual financial statements on the adoption of, and during the transition to accrual basis IPSASs.

Exceptions to the Retrospective Application of IPSASs

23. **A first-time adopter's estimates in accordance with IPSASs at the date of adoption of IPSASs, shall be consistent with estimates made in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were inconsistent with the requirements in IPSASs.**

24. This IPSAS prohibits retrospective application of some aspects of accrual basis IPSASs. A first-time adopter may receive information after the date of adoption of IPSASs about estimates that it had made under its previous basis of accounting. In accordance with paragraph 23, a first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period.*

25. A first-time adopter may need to make estimates in accordance with IPSASs at the date of adoption of IPSASs or during the period of transition that were not required at that date under the previous basis of accounting. To achieve consistency with IPSAS 14, those estimates in accordance with IPSASs shall reflect conditions that existed at the date of adoption of IPSASs or at the date during the period of transition. In particular, estimates determined at the date of adoption of IPSASs or during the period of transition of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date. For non-financial assets, such as property, plant and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgment at the date of adoption of IPSASs or the date during the period of transition.

26. Paragraphs 23–25 apply to the opening statement of financial position. They also apply to a comparative period where an entity elects to present comparative information in accordance with paragraph 78, in which case the references to the date of adoption of IPSASs are replaced by references to the end of that comparative period.

Fair Presentation and Compliance with IPSASs

27. **A first-time adopter's first IPSAS financial statements shall fairly present the financial position, financial performance, and cash flows of the entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. If a first-time adopter takes advantage of the exemptions in paragraphs 36–62, these exemptions will affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSASs, until the exemptions that provided the relief have expired and/or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

28. **A first-time adopter shall claim full compliance with IPSASs only when it has complied with all the requirements of the applicable IPSASs effective at that date, subject to paragraph 11. If a first-time adopter adopts one or more of the exemptions in paragraph 36–62, the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs will be affected. An entity's whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs, and shall be qualified as accrual basis IPSAS complaint financial statements.**

29. In accordance with paragraph 29 of IPSAS 1 fair presentation is achieved in virtually all circumstances by compliance with applicable IPSASs. For a first-time adopter to claim full compliance with IPSASs, all the requirements of the applicable IPSASs needs to be complied with to ensure that information is presented in a manner that meets the qualitative characteristics, subject to paragraph 11.

30. The exemptions in paragraphs 36–62 provide relief from the recognition, measurement, presentation and/or disclosure requirements in IPSASs on the date of adoption of IPSASs and during the period of transition. A first-time adopter may elect to adopt these exemptions, but shall consider that applying these exemptions will affect the fair presentation of its financial statements and its ability to assert compliance with accrual basis IPSASs in accordance with paragraphs 27 and 28 until the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured, and/or the relevant information is presented and/or disclosed in the financial

statements in accordance with the applicable IPSASs (whichever is earlier). Before making use of such exemptions, a first-time adopter shall consider all the relevant facts and circumstances and the potential effect on its financial statements.

31. **A first-time adopter shall assess whether the transitional exemptions adopted affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSASs.**

32. For example, a first-time adopter adopts the three year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of non-exchange revenue. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSASs will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSASs at the date of adoption of accrual basis IPSASs or during the period of transition.

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

33. **A first-time adopter may adopt the exemptions in paragraphs 36–62. These exemptions will affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs during the period of transition in accordance with paragraphs 27 and 28 while they are applied. A first-time adopter shall not apply these exemptions by analogy to other items.**

34. **Notwithstanding the exemptions provided in paragraphs 36–62 a first-time adopter is encouraged to comply in full with all the requirements of the applicable IPSASs as soon as possible.**

35. **To the extent that a first-time adopter applies the exemptions in paragraph 36–62, it is not required to apply any associated presentation and/or disclosure requirements in the applicable IPSASs until the exemptions that provided the relief have expired or the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSASs (whichever is earlier).**

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, *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*);**

(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*); and**

(h) **Financial instruments (see IPSAS 29, *Financial Instruments; Recognition and Measurement*).**

37. **Where a first-time adopter applies the exemption in paragraph 36(d), it shall recognize the obligation and any related plan assets at the same time.**

38. **Where a first-time adopter has recognized the assets and/or liabilities included in paragraph 36 under its previous basis of accounting, it is not required to change its accounting policy(ies) in respect of the measurement of these assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs.**

39. Subject to paragraphs 36 and 38, a first-time adopter is not required to change its accounting policy(ies) in respect of the recognition and/or measurement of assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs. The transitional exemptions in paragraphs 36 and 38 are intended to allow a first-time adopter a period to develop reliable[1] models for recognizing and/or measuring its assets and/or liabilities during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of such assets and/or liabilities that do not comply with the provisions of other IPSASs.

40. **Subject to the provisions of paragraphs 36 and 38, a first-time adopter shall only change its accounting policies during the period of transition to better conform to the accounting policies in accrual basis IPSASs,**

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[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 discusses the transitional approach to the explanation of reliability.

and may retain its existing accounting policies until the exemptions that provided the relief have expired or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSASs (whichever is earlier). A first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories is permitted in the applicable IPSAS.

41. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in terms of IPSAS 9, *Revenue from Exchange Transactions*, or other receivables settled in cash or another financial asset in terms of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).***

Recognition and/or Measurement of Non-Exchange Revenue

42. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of non-exchange revenue for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of revenue from non-exchange transactions on a class-by-class basis**.

43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue from non-exchange transactions in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue from non-exchange transactions that do not comply with the provisions of IPSAS 23. The transitional provision in paragraph 42 allows a first-time adopter to apply IPSAS 23 incrementally to different classes of revenue from non-exchange transactions. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of transfers in accordance with IPSAS 23 from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for recognizing and measuring income tax revenue.

Other Exemptions

IPSAS 5, Borrowing Costs

44. **Where a first-time adopter applies the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure assets, and elects to account for borrowing costs in terms of the allowed alternative treatment, it is not required to capitalize any borrowing costs on qualifying assets for which the commencement**

date for capitalization is prior to the date of adoption of accrual basis IPSASs, until the exemption that provided the relief has expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

45. Paragraph 36 allows a first-time adopter to not, recognize and/or measure assets in accordance with IPSASs 16, 17, 27, 31 and 32 for a period of up to three years from the date of adoption of IPSASs. During this period, a first-time adopter may need to consider the requirements of those IPSASs at the same time as the capitalization of borrowing costs where it applies the allowed alternative method. Where a first-time adopter takes advantage of the transitional exemption period for the recognition and/or measurement of assets in accordance with IPSASs 16, 17, 27, 31 and 32 it is not required to capitalize borrowing costs incurred on qualifying assets prior, or during the period of transition. Only when the exemptions that provided the relief have expired, and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier) will a first-time adopter be allowed to capitalize borrowing costs incurred on the qualifying assets in accordance with the allowed alternative treatment.

IPSAS 13, Leases

46. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize assets, it is not required to apply the requirements related to finance leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).**

47. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize assets in accordance with IPSASs 16, 17, 27, 31 and 32. During this period, a first-time adopter may need to consider the recognition requirements of those IPSASs at the same time as considering the recognition of finance leases in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSASs 16, 17, 27, 31 and 32 it is not required to recognize finance lease assets and/or liabilities until the exemptions that provided the relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

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 has expired, and/or the relevant asset is recognized and/or measured in accordance with IPSAS 17 (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 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 (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.

50. **Where a first-time adopter takes advantage of the exemption in paragraph 48, it shall recognize and/or measure the obligation and any related asset at the same time.**

IPSAS 20, Related Party Disclosures

51. **A first-time adopter is not required to disclose related party relationships, related party transactions and information about key management personnel for reporting periods beginning on a date within three years following the date of adoption of IPSASs.**

52. **Notwithstanding the transitional provision in paragraph 51, a first-time adopter is encouraged to disclose information about related party relationships, related party transactions and information about key management personnel that is known at the date of adoption of IPSAS.**

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

53. **Where a first-time adopter has not recognized its interests in controlled entities, associates or joint ventures under its previous basis of accounting, it is not required to recognize and/or measure its interests in other entities as a controlled entity, associate or joint venture for reporting periods beginning on a date within three years following the date of adoption of accrual basis IPSAS.**

54. Subject to paragraph 53, a first-time adopter is not required to change its accounting policy in respect of the recognition and/or measurement of its interests in controlled entities, associates or joint ventures for reporting periods beginning on a date within three years following the date of adoption

of IPSASs. The transitional exemption in paragraph 53 is intended to allow a first-time adopter a period to identify and appropriately classify its interests in other entities as either controlled entities, associates or joint ventures during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of its interests in controlled entities, associates or joint ventures that do not comply with the provisions of other IPSASs.

IPSAS 35, Consolidated Financial Statements

55. **Subject to paragraph 53, a first-time adopter shall present consolidated financial statements following the adoption of accrual basis IPSASs. A first-time adopter presenting consolidated financial statements is, however, not required to eliminate all balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within three years following the date of adoption of IPSASs.**

56. On adoption of IPSASs, an entity may have controlled entities with a significant number of transactions between controlled entities. Accordingly, it may be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 55 provides relief for a period of up to three years to fully eliminate balances, transactions, revenue and expenses between entities within the economic entity.

57. **Notwithstanding the transitional exemption in paragraph 55, a first-time adopter is encouraged to eliminate those balances, transactions, revenue and expenses that are known on the date of adoption of IPSASs to comply in full with the provisions of IPSAS 35 ~~6~~ as soon as possible.**

58. **Where a first-time adopter has taken advantage of the transitional exemption in paragraph 53 and/or paragraph 55, it shall not present financial statements as consolidated financial statements until:**

   (a) **The exemptions that provided the relief have expired; and**

   (b) **Its interests in other entities have been appropriately recognized and/or measured as controlled entities, associates or joint ventures; or**

   (c) **Inter-entity balances, transactions, revenue and expenses between entities within the economic entity are eliminated (whichever is earlier).**

IPSAS 36, Investments in Associates and Joint Ventures

59. **When a first-time adopter applies the equity method on adoption of IPSAS 36, the investor is not required to eliminate its share in the surplus and deficit resulting from upstream and downstream transactions between the investor and its associate or joint venture for reporting periods beginning on a date within three years following the date of adoption of IPSASs.**

60. On adoption of IPSASs, a first-time adopter may be an investor in one or more associates or joint ventures with a significant number of upstream and downstream transactions between the investor and the investee. Accordingly, it may be difficult to identify some upstream and/or downstream transactions in which the investor's share in the associate's or joint venture's surplus or deficit needs to be eliminated in applying the equity method. For this reason, paragraph 59 provides the investor relief with a period of up to three years to fully eliminate its share in the associate's or joint venture's surplus or deficit resulting from upstream and/or downstream transactions.

61. **Notwithstanding the transitional exemption in paragraph 59, a first-time adopter is encouraged to eliminate its share in the associate's and joint venture's surplus and deficit resulting from upstream and downstream transactions that are known on the date of adoption of IPSASs, to comply in full with the provisions of IPSAS 36 as soon as possible.**

62. **Where a first-time adopter has taken advantage of the transitional exemption in paragraph 53 and/or paragraph 59, it shall not present financial statements in which investments in associates or joint ventures are accounted for using the equity method until:**

(a) **The exemptions that provided the relief have expired; and**

(b) **The interest in other entities have been appropriately recognized and/or measured as an associate or joint venture; or**

(c) **Its share in the associate's surplus and deficit resulting from upstream and downstream transactions between the investor and the investee are eliminated (whichever is earlier).**

IPSAS 40, Public Sector Combinations

62A. **Where a first-time adopter applies the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure assets and/or liabilities, the first-time adopter may be a party to a public sector combination during that three year transitional relief period. The first-time adopter is not required to recognize and/or measure the assets and/or liabilities associated with the public sector combination, until the exemption that provided the relief has expired and/or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).**

62B. **Where a first-time adopter applies the exemption in paragraph 62A it shall not recognize goodwill in respect of an acquisition. The first-time adopter shall recognize the difference between (a) and (b) below in net assets/equity:**

(a) **The aggregate of:**

(i) **Any consideration transferred;**

(ii) **Any non-controlling interests in an acquired operation; and**

(iii) **Any previously held equity interests in an acquired operation.**

(b) **The net amounts of any identifiable assets acquired and the liabilities assumed.**

62C. IPSAS 40 is applied prospectively. Consequently, a first-time adopter does not adjust any amounts of goodwill recognized as a result of a public sector combination that occurred prior to the application of IPSAS 40.

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

63. **A first-time adopter is required, or may elect, to adopt the exemptions in paragraphs 64–134. These exemptions will not affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs during the period of transition in accordance with paragraphs 27 and 28 while they are applied. A first-time adopter shall not apply these exemptions by analogy to other items.**

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 cost model in IPSAS 16;**

(c) **Property, plant and equipment (see IPSAS 17);**

(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 29); or**

(f) **Service concession assets (see IPSAS 32).**

65. Deemed cost can only be determined where the acquisition cost of the asset and/or the liability is not available. Deemed cost assumes that the entity had initially recognized the asset and/ or the liability at the given date. Subsequent depreciation or amortization is based on that deemed cost on the premise that the acquisition

cost is equal to the deemed cost. For example, a first-time adopter may elect to measure property, plant and equipment at deemed cost at the date of adoption of IPSASs because cost information about the item of property, plant and equipment was not available on that date, and use fair value as its deemed cost at that date. Any subsequent depreciation is based on the fair value determined 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 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; 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 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 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 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 fair value in accordance with paragraph 67, the first-time adopter shall apply the definition of fair value and guidance in other applicable IPSASs 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 value is not available for inventory, or investment property that is of a specialized nature, a first-time adopter may consider the following measurement alternatives in determining a deemed cost:**

(a) **For inventory, current replacement cost; and**

(b) **For investment property of a specialized nature, depreciated replacement cost.**

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 when reliable cost information about the asset is not available, and use that fair value as its deemed cost.**

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 29) at the first-time adopter's date of adoption of IPSASs in its separate financial statements.**

73. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring it at its fair value at one particular date because of a specific event. In such instances, a first-time adopter applies paragraph 72(a) and (b).

Date at which Deemed Cost can be Determined

74. **The date at which deemed cost is determined may vary depending on whether the first-time adopter takes advantage of the exemptions that provides a three year transitional relief period to not recognize and/or measure certain assets and/or liabilities. When the first-time adopter takes advantage of the exemption, deemed cost can be determined at any date during this period, or on the date that the exemption expires (whichever is earlier), and shall be recognized in accordance with paragraph 76. If a first-time adopter does not adopt the exemption, deemed cost shall be determined at the beginning of the earliest period for which the first-time adopter presents IPSAS financial statements.**

75. 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 and/or liabilities, it may determine a deemed cost for that asset and/or liability at any point of time within the three year transitional relief period.

76. **When a deemed cost is determined during the period in which a first-time adopter takes advantage of the exemption that provides a three year transitional exemption not to recognize and/or measure an asset and/or liability, a first-time adopter shall recognize the adjustment against the**

opening accumulated surplus or deficit in the year in which the deemed cost of the asset and/or liability is recognized and/or measured.

IPSAS 1, Presentation of Financial Statements

Comparative Information

77. **A first-time adopter is encouraged, but not required, to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this IPSAS. When a first-time adopter presents comparative information, it shall be presented in accordance with the requirements of IPSAS 1.**

78. **Where a first-time adopter elects to present comparative information, the transitional IPSAS financial statements or the first IPSAS financial statements presented in accordance with this IPSAS shall include:**

    (a) **One statement of financial position with comparative information for the preceding period, and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSAS;**

    (b) **One statement of financial performance with comparative information for the preceding period;**

    (c) **One statement of changes in net assets/equity with comparative information for the preceding period;**

    (d) **One cash flow statement with comparative information for the preceding period;**

    (e) **A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and**

    (f) **Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 142.**

79. **Where a first-time adopter elects to not present comparative information, its transitional IPSAS financial statements following the adoption of accrual basis IPSASs or its first IPSAS financial statements presented in accordance with this IPSASs shall include:**

    (a) **One statement of financial position, and an opening statement of financial position at the date of adoption of accrual basis IPSAS;**

    (b) **One statement of financial performance;**

    (c) **One statement of changes in net assets/equity;**

(d) **One cash flow statement;**

(e) **A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and**

(f) **Related notes and the disclosure of narrative information about material adjustments as required by paragraph 142.**

80. **Where a first-time adopter takes advantage of the exemptions in paragraphs 36–62 which allow a three year transitional relief period to not recognize and/or measure an item, comparative information for the year following the date of adoption of IPSASs shall be adjusted only when information is available about the items following their recognition and/or measurement during the relief period.**

81. IPSAS 1 requires an entity to present comparative information in respect of the previous period for all amounts reported in the financial statements. Where a first-time adopter takes advantage of the exemption that provides a three year transitional exemption to not recognize and/or measure an item, it shall, during the period of transition present comparative information for an item recognized and/or measured during that period only, if information is available about the item for the comparative period. The first-time adopter shall apply the requirements in IPSAS 1 after it has adjusted its first IPSAS financial statements.

Non-IPSAS Comparative Information

82. A first-time adopter may present comparative information in accordance with its previous basis of accounting. In any financial statements containing comparative information in accordance with the previous basis of accounting, the first-time adopter shall label the information prepared using the previous basis of accounting information as not being prepared in accordance with IPSASs, and disclose the nature of the main adjustments that would be required to comply with IPSASs.

83. Where a first-time adopter presents non-IPSAS comparative information in its first IPSAS or first transitional IPSAS financial statements following its adoption of accrual basis IPSASs, the transitional exemptions and provisions provided in this Standard shall not be applied to the non-IPSAS comparative information presented in the first IPSAS financial statements or first transitional IPSAS financial statements.

Non-IPSAS Historical Summaries

84. A first-time adopter may elect to present historical summaries of selected data for periods before the first period for which it presents financial statements in accordance with IPSASs. This IPSAS does not require such summaries to comply with the recognition and measurement requirements

of IPSASs. In any financial statements containing historical summaries in accordance with the previous basis of accounting, the first-time adopter shall label the previous basis of accounting information prominently as not being prepared in accordance with IPSASs, and disclose the nature of the main adjustments that would be required to comply with IPSASs. The first-time adopter need not quantify those adjustments.

IPSAS 4, The Effects of Changes in Foreign Exchange Rates

85. **On the date of adoption of IPSASs a first-time adopter need not comply with the requirements for cumulative translation differences that exist at that date. If a first-time adopter uses this exemption:**

    (a) **The cumulative translation differences for all foreign operations are deemed to be zero at the date of adoption of IPSASs; and**

    (b) **The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of adoption of IPSASs and shall include later translation differences.**

86. **A first-time adopter shall apply the requirement to treat any goodwill (see IPSAS 40) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of adoption of IPSASs.**

87. In applying the transitional exemption in paragraph 85, a first-time adopter shall not restate prior years for the acquisition of a foreign operation acquired prior to the date of adoption of IPSASs, and accordingly shall, where appropriate, treat goodwill and fair value adjustments arising on acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

IPSAS 5, Borrowing Costs

88. **A first-time adopter is encouraged, but not required, to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment.**

89. **Where a first-time adopter adopts or changes its accounting policy to the benchmark treatment it is allowed to designate any date before the date of adoption of IPSASs and apply IPSAS 5 prospectively on or after that designated date.**

90. **Where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred both before and after date of adoption of IPSASs on qualifying assets for which the**

commencement date for the capitalization is prior to the date of adoption of IPSASs, shall be recognized retrospectively in accordance with the allowed alternative treatment.

IPSAS 10, Financial Reporting in Hyperinflationary Economies

Severe Hyperinflation

91. **If a first-time adopter has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of adoption of IPSASs.**

92. The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

    (a) A reliable general price index is not available to all entities with transactions and balances in the currency; and

    (b) Exchangeability between the currency and a relatively stable foreign currency does not exist.

93. The functional currency of a first-time adopter ceases to be subject to severe hyperinflation on the functional currency normalization date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph 94 or when there is a change in the first-time adopter's functional currency to a currency that is not subject to severe hyperinflation.

94. **When a first-time adopter's date of adoption of IPSASs is on, or after, the functional currency normalization date, the first-time adopter may elect to measure all assets and liabilities held before the functional currency normalization date at fair value on the date of adoption to IPSASs. The first-time adopter may use that fair value as the deemed cost of those assets and liabilities in the opening statement of financial position.**

IPSAS 13, Leases

95. **A first-time adopter shall on the date of adoption of IPSAS, classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known on the date of adoption of IPSASs.**

96. **If, however, the lessee and the lessor have agreed to change the provisions of the lease between the date of inception of the lease and the date of adoption of accrual basis IPSASs in a manner that would have resulted in a different classification of the lease at the date of adoption, the revised agreement shall be regarded as a new agreement. A first-time adopter shall consider the provisions of the new agreement at the date of adoption of accrual basis IPSASs in classifying the lease as an operating or finance lease.**

IPSAS 18, Segment Reporting

97. **A first-time adopter is not required to present segment information for reporting periods beginning on a date within three years following the date of adoption of IPSASs.**

IPSAS 21, Impairment of Non-Cash-Generating Assets

98. **A first-time adopter shall apply the requirements in IPSAS 21 prospectively from the date of adoption of IPSASs, except in relation to those assets 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 assets. When a first-time adopter takes advantage of the exemption that provides a three year transitional relief period in IPSAS 16, 17, 27, 31 and 32, it applies IPSAS 21 when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).**

99. **On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the non-cash-generating assets recognized and/or measured are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSASs, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).**

100. A first-time adopter shall apply the requirements of IPSAS 21 prospectively. This means that on the date of adoption of accrual basis IPSASs, or if the first-time adopter has adopted transitional relief relating to the recognition and/or measurement of assets, only when the three year transitional exemption expires, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), will a first-time adopter be required to assess whether there is an indication that any non-cash-generating assets included in the opening statement of financial position, are impaired.

IPSAS 39, Employee Benefits

101. **A first-time adopter shall recognize and/or measure all employee benefits on the date of adoption of IPSASs, except for defined benefit plans and other long-term employee benefits where it takes advantage of the exemption in paragraph 36.**

Defined Benefit Plans and Other Long-Term Employee Benefits

102. **On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which**

the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:

(a) **The present value of the obligation at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method; and**

(b) **Minus the fair value, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier) of plan assets (if any) out of which the obligations are to be settled directly.**

(c) **[Deleted]**

103. **If the initial liability in accordance with paragraph 102 is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

104. The effect of the change in the accounting policy to IPSAS 39 includes any remeasurements that arose, if any, in earlier periods. Under its previous basis of accounting, a first-time adopter may not have recognized and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSASs or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph 102(b). This increased liability is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

105. **A first-time adopter shall recognize all cumulative remeasurements in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

106. [Deleted]

107. [Deleted]

IPSAS 26, Impairment of Cash-Generating Assets

108. **A first-time adopter shall apply the requirements in IPSAS 26 prospectively from the date of adoption of IPSASs, except in relation to those assets 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 assets. When a first-time adopter takes advantage of the exemption that provides a three year transitional relief period in IPSASs 16, 17, 27, 31 and 32, it applies IPSAS 26 when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).**

109. **On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the cash-generating assets recognized and/or measured are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSASs, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).**

110. A first-time adopter shall apply the requirements of IPSAS 26 prospectively. This means that on the date of adoption of accrual basis IPSASs, or if the first-time adopter has adopted the transitional relief relating to the recognition and/or measurement of assets, only when the three year transitional exemption expires, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), will a first-time adopter be required to assess whether there is an indication that any cash-generating assets included in the opening statement of financial position, are impaired.

IPSAS 28, Financial Instruments: Presentation

111. **On the date of adoption of IPSASs, a first-time adopter shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net asset/equity component. If the liability component is no longer outstanding on the date of adoption of IPSASs, the first-time adopter need not separate the compound financial instrument into a liability component and a net asset/equity component.**

112. IPSAS 28 requires an entity to split a compound financial instrument at inception into separate liability and net asset/equity components. If the liability component is no longer outstanding, retrospective application of IPSAS 28 involves separating two portions of net assets/equity. The first portion is in accumulated surplus and deficit and represents the cumulative interest accreted on the liability component. The other portion represents the original net asset/equity component. However, this IPSASs allows a first-

time adopter to not separate these two portions if the liability component is no longer outstanding at the date of adoption of IPSASs.

IPSAS 29, Financial Instruments: Recognition and Measurement

Designation of Financial Instruments on the Date of Adoption of IPSAS or During the Period of Transition

113. **A first-time adopter may designate a financial asset or financial liability as a financial asset or financial liability at fair value through surplus or deficit that meet the criteria for designation in IPSAS 29, in accordance with paragraph 114. A first-time adopter shall disclose the fair value of financial assets and financial liabilities designated into each category at the date of designation, their classification and carrying amount.**

114. **IPSAS 29 permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provide it meets certain criteria) to be designated as a financial asset or financial liability at fair value though surplus or deficit. Despite this requirement, exceptions apply in the following circumstances:**

   (a) **A first-time adopter is permitted to make an available-for-sale designation at the date of adoption of IPSASs.**

   (b) **A first-time adopter is permitted to designate, at the date of adoption of IPSASs, any financial asset or financial liability as at fair value through surplus or deficit provided the asset or liability meets the criteria in paragraph 10(b)(i), 10(b)(ii) or 13 of IPSAS 29 at that date.**

Derecognition of Financial Assets and Financial Liabilities

115. **Except as permitted by paragraph 116 a first-time adopter shall apply the derecognition requirements in IPSAS 29 prospectively for transactions occurring on or after the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemptions not to recognize financial instruments, the date on which the exemptions that provided the relief have expired and/or the financial instruments are recognized (whichever is earlier). For example, if a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities in accordance with its previous basis of accounting as a result of a transaction that occurred before the date of adoption of IPSASs, it shall not recognize those assets and liabilities in accordance with IPSAS 29, unless they qualify for recognition as a result of a later transaction or event.**

116. **Notwithstanding the provision in paragraph 115, a first-time adopter may apply the derecognition requirements in IPSAS 29 retrospectively from a date of the first-time adopter choosing, provided that the information needed to apply IPSAS 29 to financial assets and financial**

liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for these transactions.

Hedge Accounting

117. **As required by IPSAS 29, a first-time adopter shall 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 financial instruments, the date when the exemption that provided the relief has expired and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier):**

    (a) **Measure all derivatives at fair value; and**

    (b) **Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with its previous basis of accounting as if they were assets or liabilities.**

118. **A first-time adopter shall not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IPSAS 29 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged item is a net position). However, if a first-time adopter designated a net position as a hedged item in accordance with its previous basis of accounting, it may designate an individual item within that net position as a hedged item in accordance with IPSASs, provided that it does so no later than the date of adoption of IPSASs or where it takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).**

119. **If, before 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 financial instruments the date on which the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier), a first-time adopter had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IPSAS 29, the first-time adopter shall apply paragraphs 102 and 112 of IPSAS 29 to discontinue hedge accounting. Transactions entered into before 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 financial instruments, the date when the**

transitional exemption expires and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 29 (whichever is earlier), shall not be retrospectively designated as hedges.

Impairment of Financial Assets

120. **A first-time adopter shall apply the impairment requirements prospectively from the date of adoption of IPSASs, except in relation to those financial assets where it takes advantage of the exemptions in paragraphs 36, 38 and 42 which allow a three year transitional relief period to not recognize and/or measure financial instruments. When a first-time adopter adopts the three year transitional relief period provided, it applies the impairment provisions when exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 29 (whichever is earlier).**

121. **A first-time adopter shall on the date of adoption of IPSASs, or when the exemptions that provided the relief have expired, and/or when the relevant financial instruments are recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier), assess at that date whether there is any indication that the financial instrument recognized and/or measured in the statement of financial position, is impaired. Any impairment loss incurred shall be recognized in opening accumulated surplus or deficit in the period in which the financial instrument is recognized and/or measured.**

122. A first-time adopter shall apply the impairment requirements prospectively. This means that on the date of adoption of IPSAS 29, when the exemptions that provided the relief have expired, and/ or when the relevant financial instruments are recognized and/or measured, a first-time adopter shall be required to assess whether there is an indication that the financial instrument is impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSASs, or in the opening accumulated surplus or deficit of the reporting period in which the exemptions that provided the relief have expired, and/or the relevant financial instruments are recognized and/or measured (whichever is earlier).

IPSAS 30, Financial Instruments: Disclosures

123. **Where the first-time adopter elects to present comparative information in accordance with paragraph 78, it is not required to present information about the nature and extent of risks arising from financial instruments for the comparative period in its transitional IPSAS financial statements or its first IPSAS financial statements.**

124. **A first-time adopter shall apply the requirements in IPSAS 30 prospectively from the date of adoption of IPSASs, or when the exemptions**

that provided the relief have expired, and/or when the relevant financial instrument is recognized and/or measured in accordance with IPSAS 29 (whichever is earlier).

IPSAS 31, Intangible Assets

125. **A first-time adopter shall recognize and/or measure an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets.**

126. As required by paragraph 20, a first-time adopter is required to recognize all assets for which recognition is required by IPSASs. A first-time adopter shall therefore recognize any internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, irrespective of whether such costs were expensed under its previous basis of accounting.

IPSAS 32, Service Concession Arrangements

Initial Measurement of Related Liability

127. **Where a first-time adopter elects to measure service concession assets using deemed cost, the related liabilities shall be measured as follows:**

(a) **For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in IPSAS 32; or**

(b) **For the liability under the grant of a right to the operator model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.**

128. **A first-time adopter shall recognize and/or measure any difference between the value of the service concession asset and the financial liability under the financial liability model in paragraph 127 in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

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 cost model in IPSAS 17, whereas the economic entity may use the revaluation model.**

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

130. **However, if a controlling entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the controlling entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the public sector combination in which the controlling entity acquired the controlled entity (or associate or joint venture), subject to the exemptions that may be adopted in terms of this IPSAS. Similarly, if a controlled entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, subject to the exemptions that may be adopted in this IPSAS, except for consolidation adjustments.**

IPSAS 35, Consolidated Financial Statements

131. **A first-time adopter that is a controlled entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at the date of adoption of accrual basis IPSASs, and measure its investment in each controlled entity at fair value through surplus or deficit at the date of adoption of accrual basis IPSASs.**

IPSAS 37, Joint Arrangements

132. **Where a first-time adopter accounted for its investment in a joint venture under its previous basis of accounting basis using proportionate consolidation, the investment in the joint venture shall be measured on**

the date of adoption as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (see IPSAS 40).

133. **The opening balance of the investment determined in accordance with paragraph 132 is regarded as the deemed cost of the investment at initial recognition. A first-time adopter shall test the investment for impairment as at the date of adoption, regardless of whether there is any indication that the investment may be impaired. Any impairment loss shall be adjusted to the accumulated surplus or deficit at the date of adoption.**

134. **If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, the first-time adopter shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the first-time adopter shall recognize a corresponding liability. If the first-time adopter concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognize the corresponding liability but it shall adjust accumulated surplus or deficit at the date of adoption. The first-time adopter shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the date of adoption of accrual basis IPSASs.**

Disclosures

135. **A first-time adopter with financial statements that comply with the requirements of this IPSAS while taking advantage of the transitional exemptions and provisions that affect fair presentation and its ability to assert compliance with accrual basis IPSASs, shall make an explicit and unreserved statement of compliance with this IPSAS in the notes to the financial statements. This statement shall be accompanied by a statement that the financial statements do not fully comply with accrual basis IPSASs.**

136. **Where a first-time adopter takes advantage of the transitional exemptions in this IPSAS, the first-time adopter shall disclose:**

    (a) **The extent to which it has taken advantage of the transitional exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs; and/or**

    (b) **The extent to which it has taken advantage of the transitional exemptions that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.**

137. **To the extent that a first-time adopter has taken advantage of the transitional exemptions and provisions in this IPSAS that affect fair presentation and compliance with accrual basis IPSASs in relation to assets, liabilities, revenue and/or expenses, it shall disclose:**

(a) **Progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities revenue and/or expenses in accordance with the requirements of the applicable IPSAS;**

(b) **The assets, liabilities, revenue and/or expenses that have been recognized and measured under an accounting policy that is not consistent with the requirements of applicable IPSAS;**

(c) **The assets, liabilities, revenue and/or expenses that have not been measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;**

(d) **The nature and amount of any adjustments recognized during the reporting period; and**

(e) **An indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS.**

138. **Where a first-time adopter takes advantage of the transitional exemption to not eliminate some balances, transactions, revenue and expenses, and/or where it applies the three year transitional relief for the recognition and/or measurement of its interest in controlled entities, associates or joint ventures in paragraph 55, it shall disclose the nature of the balances, transactions, revenue and expenses and/or upstream or downstream transactions that have been eliminated during the reporting period.**

139. **Where a first-time adopter is not able to present consolidated financial statements because of the transitional exemptions and provisions adopted in paragraphs 58 or 62, it shall disclose:**

(a) **The reason why the financial statements, investments in associates or interests in joint ventures could not be presented as consolidated financial statements; and**

(b) **An indication by when the first-time adopter will be able to present consolidated financial statements.**

140. **The disclosure requirements of paragraphs 135 and 139 will assist users to track the progress of the first-time adopter in conforming its accounting policies to the requirements in the applicable IPSASs during the period of transition.**

Explanation of Transition to IPSASs

141. **A first-time adopter shall disclose:**

(a) **The date of adoption of IPSASs; and**

(b) **Information and explanations about how the transition from the previous basis of accounting to IPSASs affected its reported**

financial position, and, where appropriate, its reported financial performance and cash flows.

Reconciliations

142. **A first-time adopter shall present in the notes to its transitional IPSAS financial statements or its first IPSAS financial statements:**

 (a) **A reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSASs; and**

 (b) **A reconciliation of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of IPSASs.**

 A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.

143. The reconciliation presented in accordance with paragraph 142 shall provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening statement of financial position and, where applicable, the restated comparative statement of financial performance presented in accordance with accrual basis IPSAS. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents shall be included in the notes.

144. If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 142 shall distinguish the correction of those errors from changes in accounting policies.

145. **If an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact.**

146. **Where a first-time adopter takes advantage of the exemptions in paragraph 36–43 which allow a three year transitional relief period to not recognize and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognized and/or measured in accordance with this IPSAS.**

147. The reconciliation presented in accordance with paragraph 146 provides sufficient detail to enable users to understand which items have been recognized and/or measured during the reporting period where the first-time adopter adopts one of more of the exemptions that provide a three year transitional relief period to not recognize and/or measure an item. The

reconciliation explains the adjustments to the previously reported statement of financial position and, where applicable, the previously reported statement of financial performance in each period when new items are recognized and/or measured in accordance with this IPSAS.

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

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

(a) **The aggregate of those fair values or other measurement alternatives that were considered in determining deemed cost;**

(b) **The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and**

(c) **Whether the deemed cost was determined on the date of adoption of IPSASs or during the period of transition.**

Disclosures Where Deemed Cost is Used for Investments in Controlled Entities, Joint Ventures or Associates

149. **If a first-time adopter uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, joint venture or associate in its separate financial statements, its separate financial statements shall disclose:**

(a) **The aggregate deemed cost of those investments for which deemed cost is fair value; and**

(b) **The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.**

150. **The disclosure requirements required in paragraph 148 and 149 shall be disclosed in each period when new items are recognized and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).**

Exemptions from Disclosure Requirements in IPSASs During the Period of Transition

151. **To the extent that a first-time adopter takes advantage of the exemption that provides a three year relief period to not recognize and/or measure items, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1,**

IPSAS 18 and/or the applicable IPSASs until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

152. **Notwithstanding the transitional provision in paragraph 151, a first-time adopter is encouraged to disclose the information required by IPSAS 1, IPSAS 18 and/or the applicable IPSAS as soon as possible.**

Transitional Provisions

153. **Where a first-time adopter has adopted the existing transitional provisions in other accrual basis IPSASs, it shall continue to apply those transitional provisions until they expire and/or the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). If the first-time adopter elects to adopt the transitional exemptions in this IPSAS, the relief period applied in adopting accrual basis IPSASs, may not be longer than the relief period provided in this IPSAS.**

Effective Date

154. **A first-time adopter shall apply this Standard if its first IPSAS financial statements are for a period beginning on or after January 1, 2017. Earlier application is permitted.**

154A. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

154B. **Paragraphs 36, 102, 104 and 105 were amended and paragraphs 106 and 107 were deleted by IPSAS 39, *Employee Benefits,* issued in July 2016. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

154C. **Paragraphs 86, 129, 130 and 132 were amended and paragraphs 62A–62C were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Appendix A

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

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

Background

BC1. Prior to the development of IPSAS 33, there was no Standard that addresses issues arising from the first-time adoption of IPSASs. As a result, the IPSASB approved a project in June 2011 to develop a comprehensive set of principles to be used by entities on the adoption of accrual basis International Public Sector Accounting Standards (IPSASs).

BC2. While this IPSAS has Implementation Guidance, it is not within the scope of this project to develop more detailed practical guidance on the first-time adoption of IPSASs. The IPSASB is of the view that because specific issues relating to first-time adoption are likely to vary from one jurisdiction to the next, and because the starting point for first-time adopters varies depending on their previous basis of accounting, individual jurisdictions need to play a role in the development of additional implementation guidance to assist first-time adopters in their transition to accrual basis IPSASs.

BC3. This IPSAS addresses the transition from either a cash basis, or an accrual basis under another reporting framework, or a modified version of either the cash or accrual basis of accounting. Consequently, the IPSASB agreed that the project is not an IFRS convergence project.

BC4. The IPSASB did, however, consider the transitional exemptions included in IFRS 1 *First-time Adoption of International Financial Reporting Standards,* as well as the transitional provisions included in the existing suite of IPSASs, in developing this IPSAS.

BC5. In developing this IPSAS, the IPSASB agreed that, because this IPSAS is not a convergence project, all the transitional provisions and exemptions should be included in a single pronouncement. In comparison with IFRS 1, the IPSASB agreed that no transitional provisions and exemptions should be included as appendices, as this could be confusing to the preparers of the financial statements if the provisions and exemptions are dispersed all over the Standard.

BC6. The transitional exemptions provided in this IPSAS will replace many of the transitional provisions in IPSASs once they are applied.

BC7. When the IPSASB issues new pronouncements, it will consider specific transitional provisions to be included in this IPSAS that will provide relief to a first-time adopter. Transitional provisions for entities already applying accrual basis IPSASs will be included in the new pronouncements that are developed.

Scope

BC8. This IPSAS applies when an entity first adopts accrual basis IPSASs for the first time and during the period that it transitions to accrual basis IPSASs to the extent that it has adopted one or more of the transitional exemptions and provisions in this IPSASs. This IPSAS provides relief to a first-time adopter in presenting its financial statements, and allows a first-time adopter certain voluntary exemptions during the period of transition.

BC9. This IPSAS requires an entity to comply with each effective IPSAS on the date of adoption, but grants limited exemptions from requirements in certain areas where the benefits to users of financial statements are less than the cost of complying with those requirements. Retrospective application of some IPSASs is prohibited, particularly where they require judgment by management about past conditions.

BC10. The exemptions provided in this IPSAS may override some of the requirements in existing accrual basis IPSASs during the transition to accrual basis IPSASs.

BC11. The date of adoption of accrual basis IPSASs is the start of the reporting period in which the first-time adopter elects to adopt accrual basis IPSASs. If, on the date of adoption of accrual basis IPSASs the first-time adopter elects to apply one or more of the voluntary exemptions or provisions that affect fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs, the first-time adopter will present transitional IPSAS financial statements during the period of transition. At the end of the transitional period the first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSASs in order to assert compliance with accrual basis IPSASs as required in IPSAS 1, *Presentation of Financial Statements,* even though the date of adoption of accrual basis IPSAS may have been at an earlier point.

BC12. If, however, on the date of adoption of accrual basis IPSASs the first-time adopter elects not to apply one or more of the exemptions or provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSASs, the first-time adopter can present IPSAS financial statements during the period of transition. IPSAS financial statements are financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis IPSASs. If a first-time adopter does not adopt the exemptions in this IPSAS that affect fair presentation and compliance with accrual basis IPSASs, its first financial statements following the adoption of accrual basis IPSASs may also be its first IPSAS financial statements.

Developing Criteria to Develop and Assess Transitional Exemptions

BC13. In developing the transitional exemptions in this IPSAS, the IPSASB developed a set of criteria based on what user information needs are likely to be on the adoption of and transition to accrual basis IPSASs as set out in Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).* These criteria were used to evaluate these transitional provisions, along with an assessment of the qualitative characteristics, and constraints on, information included in GPFRs as outlined in Chapter 3 of the *Conceptual Framework*. The results of these evaluations are included in paragraphs BC14 to BC19.

BC14. In developing requirements for the first-time adopter's opening statement of financial position and in considering the transitional exemptions, the IPSASB referred to the objective of financial statements, as set out in Chapter 2 of the *Conceptual Framework.*

BC15. Chapter 2 of the *Conceptual Framework* states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in providing information for accountability and decision-making purposes.

BC16. Chapter 3 of the *Conceptual Framework* also identifies qualitative characteristics of information included in the general purpose financial reports (GPFRs) of public sector entities. These qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information included in GPFRs are materiality and cost-benefit.

Criteria Used to Develop the Transitional Exemptions

Fair Presentation and Compliance with IPSASs

BC17. IPSAS 1 requires that an entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes to the financial statements. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs. Due to the complexity of issues relating to the first-time adoption of IPSASs, the IPSASB agreed that relief should be provided in certain instances. The IPSASB however agreed that some relief will affect the fair presentation of a first-time adopter's financial statements and the ability to assert compliance with accrual basis IPSASs.

BC18. The IPSASB agreed that there should be a differentiation between those transitional exemptions which do not affect fair presentation of a first-time adopter's financial statements and those that do. The IPSASB also agreed that, structuring the Standard in this way will give preparers a better understanding of the affect that the various transitional provisions and exemptions will have on their financial statements during the period of transition. Following the differentiation the IPSASB agreed that first-time adopters should be alerted to the fact that they will not be able to assert compliance with accrual basis IPSASs as required by IPSAS 1 if they adopt certain exemptions provided in this IPSAS.

BC19. The IPSASB agreed that where a first-time adopter takes advantage of the exemptions that affect fair presentation and compliance with accrual basis IPSASs, it will not be able to make an unreserved statement of compliance with accrual basis IPSASs until such time as the exemptions that provided the relief have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier).

BC20. Following comment received on the proposed IPSAS on *First-time Adoption of Accrual Basis IPSAS*, the IPSASB agreed to clarify that a first-time adopter should apply judgment in assessing to what extent the transitional exemptions and provisions adopted affect fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSAS. Where a first-time adopter elects to apply one or more of the transitional exemptions and provisions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS, the first-time adopter may still conclude that fair presentation is achieved because the recognition and/or measurement of the item, transaction or event that are exempted is not significant in relation to the financial statements as a whole. Applying judgment to assess the significance of the transitional exemption and provision adopted in relation to the financial statements as a whole needs to be assessed based on the first-time adopter's specific circumstances.

BC21. The IPSASB agreed that the financial statements presented at the end of the first reporting period where a first-time adopter takes advantage of one of more of the transitional exemptions that affect fair presentation and compliance with accrual basis IPSASs, should be referred to as the transitional IPSAS financial statements. This is because the first-time adopter will not be able to make an explicit and unreserved statement of compliance with IPSASs while applying the exemptions in this IPSAS that affect the fair presentation of the financial statements and a first-time adopter's ability to assert compliance with accrual basis IPSASs.

BC22. To provide relevant information during the transition to accrual basis IPSASs disclosures to inform users about the transitional exemptions adopted by a first-time adopter, and how it transitions from its previous basis of accounting to accrual basis IPSASs.

BC23. The IPSASB noted that, as part of a first-time adopter's transition to accrual accounting, an implementation plan should be developed so as to assess the first-time adopter's progress reporting under accrual basis IPSASs. Disclosures on the progress towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue and/or expenses in accordance with this plan will provide useful information to the users of financial statements in understanding how and by when the first-time adopter intends to comply in full with the requirements of all the applicable IPSASs.

Presentation of Information on First-Time Adoption

Presenting Comparative Information Following the Adoption of Accrual Basis IPSASs

BC24. The IPSASB considered whether comparative information should be required on the adoption of IPSASs, as the existing transitional provisions in IPSAS 1, *Presentation of Financial Statements* do not require comparative information in respect of the financial statements in which accrual accounting is first adopted in accordance with IPSASs.

BC25. In considering the cost-benefit criterion, the IPSASB confirmed that the current approach in IPSAS 1 for the presentation of comparative information should be retained to promote the adoption of accrual IPSASs. This IPSAS therefore only encourages the provision of comparative information, with no requirement that a first-time adopter should provide comparative information in its transitional IPSAS financial statements, or first IPSAS financial statements.

BC26. Where a first-time adopter elects to not present comparative information, the IPSASB agreed that, as a minimum, a first-time adopter's transitional IPSAS financial statements, should include one statement of financial position and an opening statement of financial position at the date of adoption of accrual basis IPSASs.

BC27. Where an entity elects to present comparative information, the IPSASB agreed that a first-time adopter should present one statement of financial position with comparative information for the preceding period and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSASs.

BC28. As the adoption of the three year transitional relief period also affects the presentation of comparative information, the IPSASB agreed that where the first-time adopter takes advantage of any of the transitional relief periods permitted, it should only adjust comparative information for the year following the date of adoption of accrual basis IPSASs when information is available about the items that were recognized and/or measured during that period. Comparative information will thus only be adjusted retrospectively to the extent that the information is available.

BC29. A first-time adopter shall apply the requirements in IPSAS 1 relating to the disclosure of comparative information after it has presented its first IPSAS financial statements.

Presenting a Reconciliation Following the Adoption of Accrual Basis IPSASs

BC30. In considering what information would be useful to users of the financial statements in relation to the first-time adoption of IPSASs, the IPSASB agreed that a reconciliation should be presented in the notes to the transitional IPSAS financial statements, or first IPSAS financial statements. The presentation of a reconciliation provides an important link between the information previously presented under the first-time adopter's previous basis of accounting, and the information prepared using IPSASs. The purpose of the reconciliation is to illustrate the adjustments that are necessary to conform with the requirements of accrual basis IPSASs, and how the transition from the previous basis of accounting to IPSASs affected the first-time adopter's reported financial position, financial performance and cash flows. This information will be useful to the users of financial statements.

BC31. The IPSASB considered two types of reconciliations that could be presented – the first one reconciling opening balances as at the date of adoption of IPSASs, and the second a reconciliation reconciling the end of the latest period presented in the first-time adopter's most recent annual financial statements in accordance with its previous basis of accounting.

BC32. The IPSASB concluded that the latter option will be too onerous and that the cost of presenting the reconciliation, outweighs the benefit. It was also concluded that users will not likely make use of such reconciliations and that the information will not have predictive value.

BC33. As a result, it was agreed that a first-time adopter should only present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSASs for the opening statement of financial position. The information should be presented in the notes to the transitional IPSAS financial statements, or the first IPSAS financial statements.

BC34. If a first-time adopter previously applied a cash basis of accounting it would not have presented net assets/equity. The IPSASB therefore agreed that if a first-time adopter's previous basis of accounting is cash, it is not required to present a reconciliation.

BC35. To meet the qualitative characteristics of relevance, understandability and comparability during the period of transition where a first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of assets and/or liabilities, the IPSASB considered whether a first-time adopter should be required to present a reconciliation at different points during its transition to accrual basis IPSASs.

BC36. The IPSASB agreed that where a first-time adopter takes advantage of any of the transitional relief periods permitted, it should present a reconciliation of items that have been recognized and/or measured during the reporting period when these items have not been recognized and/or measured in the previous reported financial statements. This reconciliation should be presented in addition to the reconciliation that is presented to explain differences between the first-time adopter's previous basis of accounting and those items that are recognized and/or measured in accordance with IPSASs in the opening statement of financial position.

Presenting a Comparison of Budget and Actual Information in a First-time Adopter's Financial Statements

BC37. The IPSASB debated whether a first-time adopter should be required to present a comparison of budget and actual information following the adoption of accrual basis IPSASs, and whether such information is useful to the users of the financial statements.

BC38. The IPSASB considered that if a first-time adopter prepares its budget on the cash-basis of accounting after the adoption of IPSASs, presenting this comparison in its transitional IPSAS financial statements, or its first IPSAS financial statements could be onerous. The IPSASB, however, agreed that such a comparison should be included in a first-time adopter's financial statements, as the comparison is a unique feature of IPSASs and promotes accountability and decision-making.

Presenting a Cash Flow Statement in a First-time Adopter's Financial Statements

BC39. During the comment period, respondents requested the IPSASB to consider providing transitional exemptions and provisions for the preparation of the cash flow statement where a first-time adopter elects to adopt a three year relief period for the recognition and/or measurement of certain assets and/or liabilities. Respondents noted that it did not seem appropriate to present a cash flow statement when the statement of financial position is incomplete.

BC40. The IPSASB confirmed its previous decision to not provide any transitional relief as, during the transitional period, users still need cash flow information on: (a) the sources of cash inflows: (b) the items on which cash was expensed during the reporting period; and (c) the cash balance as at the end of the reporting period.

Alignment of Accrual IPSASs and Government Finance Statistics Reporting

BC41. As the objective of this Standard is to provide a suitable starting point for accounting in accordance with accrual basis IPSAS it does not provide specific guidance to a first-time adopter on alignment of GFS reporting and accrual basis IPSASs. In its Consultation Paper, *Alignment of IPSASs and Government Finance Statistics Reporting Guidelines: Resolution of*

Differences through Convergence and Management, the IPSASB discusses where guidance on GFS alignment options within the suite of IPSASB's pronouncements will be best addressed. By choosing Government Finance Statistics (GFS) aligned policy options on the first-time adoption of accrual IPSASs, a first-time adopter may facilitate production of high quality and timely data for inclusion in their GFS reports.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

BC42. When an entity first adopts IPSASs, it may not have comprehensive information about the existence of all the assets under its control, and may require a period of time to obtain and compile appropriate records to account for such assets. As this is relevant to entities that previously did not apply the accrual basis of accounting, it is likely that these entities will require considerable effort to recognize, measure and/or classify their assets in accordance with IPSASs.

BC43. In considering the relief that should be provided to a first-time adopter for the recognition of its assets, the IPSASB considered the 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 agreed that a grace period not exceeding three years should be allowed. As entities should prepare well in advance for their transition to accrual basis IPSASs and not solely rely on the relief period provided in this IPSAS, the IPSASB is of the view that the three year transitional period is more manageable, and reduces the period over which entities will not be able to assert compliance with IPSASs.

BC44. The IPSASB agreed that prescribing a relief period in this IPSAS, rather than allowing each jurisdiction to prescribe their own transitional period, reduces inconsistencies between jurisdictions. The credibility and comparability of financial statements during the period of transition will also be enhanced.

BC45. The IPSASB confirmed that the relief provided in this IPSAS should not be seen as a complete roadmap for the adoption of accrual basis IPSASs, but rather the end stage of their adoption process. The relief period of three years provided in this IPSAS is aimed at providing relief to a first-time adopter to assist with the final conversion to accrual basis IPSASs. Prior to the adoption of this IPSAS, a first-time adopter should adequately prepare for its transition to accrual basis IPSASs. The complexity and length of the transition will depend on its previous basis of accounting. The three year relief period should not be seen as the entire adoption phase.

BC46. The guidance in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* issued by the IPSASB may assist a first-time adopter in planning their conversion to accrual basis IPSASs, prior to adoption of this IPSAS.

BC47. The IPSASB proposed that a relief period of three years should be provided for the following assets:

(a) Investment property;

(b) Property, plant and equipment;

(c) Biological assets and agricultural produce;

(d) Intangible assets; and

(e) Service concession assets.

BC48. Following comment received on this proposed IPSAS, the IPSASB agreed to also allow a relief period for the recognition and/or measurement of inventory. The IPSASB agreed that, even though inventory is a current asset which is realised, consumed, sold or used in an entity's operating cycle, a first-time adopter may need time to identify and classify its assets appropriately between inventory, investment property or property, plant and equipment, particularly in respect of land. Inventory may also comprise specialized assets or high volumes of items, e.g. medical supplies, for which additional time may be required for appropriate classification.

BC49. In considering whether a relief period should be allowed for the recognition of biological assets and agricultural produce, the IPSASB noted that these assets and activities may be limited in some jurisdictions while they may be more significant in other jurisdictions, for example, developing countries. On balance, the IPSASB agreed that a three year relief period should be provided for the recognition of biological assets and agricultural produce to assist those jurisdictions where this is a significant issue.

BC50. IPSAS 5 allows a first-time adopter to either adopt the benchmark treatment or the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. When a first-time adopter elects to apply the allowed alternative treatment, there may a timing difference between the capitalization of borrowing costs on qualifying assets where the first-time adopter takes advantage of the three year transitional relief period to not recognize certain assets. To address this timing difference, and because it might not be practical to obtain information on borrowing costs incurred prior to the recognition of the asset where the first-time adopter takes advantage of the three year transitional exemption period, the IPSASB agreed that a first-time adopter should not be required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of accrual basis IPSASs. Based on comment received from respondents on the proposed Exposure Draft, the IPSASB also agreed that any borrowing costs incurred during the period of transition should also not be capitalized until the exemptions that provided the relief have expired and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

BC51. After comment received on the proposed IPSAS, the IPSASB also agreed that a first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories are permitted in the applicable IPSAS.

Transitional Exemptions relating to the Measurement of Non-Financial Assets

BC52. The IPSASB acknowledged that some entities may have recognized non-financial assets under their previous basis of accounting. The IPSASB therefore agreed that a three year transitional relief period should be allowed for the measurement of all non-financial assets that were recognized by a first-time adopter under its previous basis of accounting. During this transitional period, a first-time adopter will be able to develop reliable models for applying the principles in the IPSASs. During the transitional period the first-time adopter will not be required to change its accounting policy in respect of the measurement of these assets.

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSASs

BC53. Where a first-time adopter takes advantage of one or more of the transitional exemptions relating to the recognition of assets, it would, as part of this process, analyze title deeds, contracts and other similar arrangements, including lease arrangements, in determining what assets should be accounted for and their measurement. As a result, a first-time adopter may not be in a position to account for finance lease liabilities related to finance lease assets until such time as the transitional relief period provided has expired and/or the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

BC54. Likewise, where a first-time adopter has elected to adopt the transitional relief provided for the recognition of service concession assets in accordance with IPSAS 32, it will not be in a position to account for the related liability under either the financial liability model or the grant of a right to the operator model until such time as the transitional relief period provided has expired and/or the relevant assets are recognized and/or measured in accordance with IPSAS 32 (whichever is earlier).

BC55. The IPSASB agreed that the recognition of finance lease liabilities and the recognition and/or measurement of liabilities related to service concession assets should also be delayed until the relief period related to the relevant assets have expired and/or the applicable assets have been recognized and/or measured.

Recognition of Provisions Included in the Initial Cost of Property, Plant and Equipment

BC56. The IPSASB concluded that no transitional relief period should be provided for provisions in IPSAS 19 and that a first-time adopter should account for all its liabilities on the date of adoption of IPSASs. The IPSASB, however, acknowledges that the delay in the recognition and/or measurement of property, plant and equipment affects the recognition and/or measurement of certain provisions which are included in the cost of such assets.

BC57. IPSAS 17 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, 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 requires that the obligation for costs accounted for in accordance with IPSAS 17 is recognized and measured in accordance with IPSAS 19.

BC58. The IPSASB 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 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.

IPSAS 39, Employee Benefits

BC59. The IPSASB acknowledged that the recognition and/or measurement of specific liabilities in IPSAS 39, will be challenging for many public sector entities as new systems may be required and/or existing systems may need to be upgraded. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of assets and liabilities related to defined benefit plans and other long-term employee benefits. To avoid a skewed statement of financial position, the IPSASB further agreed that any plan assets should be recognized and/or measured at the same time as the liabilities. All other employee benefits should be recognized and/or measured on the date of adoption of IPSASs.

BC60. [Deleted]

Transitional Exemptions Relating to the Recognition and Measurement of Monetary Assets and/or Liabilities

IPSAS 29, Financial Instruments: Recognition and Measurement

BC61. The existing transitional provisions in IPSAS 29 do not provide any relief to a first-time adopter for the recognition and/or measurement of financial instruments. Because many public sector entities will need some time to identify and appropriately classify their financial instruments, the IPSASB agreed that a transitional relief period should be provided to a first-time adopter for the recognition and/or measurement of financial instruments. A transitional relief period of three years was granted in line with the relief period provided for the recognition and/or measurement of other items.

BC62. The IPSASB, however, agreed that a distinction should be made between those entities that previously recognized financial instruments and those that did not. The IPSASB was of the view that many basic financial instruments such as cash, debtors and creditors are already recognized by public sector entities. A three year relief period for the recognition of financial instruments that have not been recognized under a first-time adopter's previous basis of accounting, is therefore provided.

BC63. As with non-monetary assets, the IPSASB agreed that the same principle should be applied to the recognition and/or measurement of monetary assets and/or liabilities, i.e. to the extent that a first-time adopter has recognized financial instruments under its previous basis of accounting, the IPSASB agreed that a three year relief period should be granted for the measurement and classification of financial instruments following the date of adoption of IPSASs. During this transitional period, a first-time adopter will be able to develop reliable models for applying the principles in IPSAS 29. It would also be allowed to apply accounting policies for the measurement of financial instruments that differs from the requirements in IPSAS 29 during the period of transition.

Transitional Exemptions Relating to the Recognition and Measurement of Non-Exchange Revenue

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

BC64. The existing transitional provisions in IPSAS 23 allow a first-time adopter to not change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also allows a first-time adopter to not change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also requires that changes in accounting policies should only be made to better conform to IPSAS 23.

BC65. The IPSASB concluded that it will be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of the accrual basis. In line with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSASs, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSASs. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

Exemptions from Presentation and/or Disclosure Requirements Where a First-time Adopter Takes Advantage of the Exemptions that Provide a Three Year Transitional Relief Period

BC66. The IPSASB acknowledged and agreed that the three year exemption provided for the recognition and/or measurement of assets and/or liabilities also implies that the associated presentation and/or disclosure requirements in the applicable IPSASs do not need to be complied with as the information will not be available. The IPSASB agreed that the information need not be provided until the exemptions that provided the relief have expired or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

BC67. For the same reason, the IPSASB agreed that a first-time adopter should not be required to provide any related disclosure requirements in IPSAS 1, *Presentation of Financial Statements* and IPSAS 18, *Segment Reporting.*

IPSAS 5, Borrowing Costs

BC68. The existing transitional provisions in IPSAS 5 encouraged a first-time adopter to adjust its financial statements retrospectively if it did not recognize borrowing costs under its previous basis of accounting. The IPSASB agreed that it does not want to provide more relief to a first-time adopter than to those entities that already apply IPSASs, particularly where the first-time adopter elects to adopt the allowed alternative treatment under which borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the cost of an asset.

BC69. As a result, the IPSASB agreed that a first-time adopter should only be encouraged to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment. Providing this relief was seen a necessary because obtaining information retrospectively may be costly and considerable effort may be needed to obtain such information.

BC70. The IPSASB, however acknowledged that some information may be available to a first-time adopter depending on its previous basis of accounting. It was therefore agreed that a first-time adopter who adopted or changed its accounting policy to the benchmark treatment, should apply the principles in IPSAS 5 prospectively, but it may designate a date before the date of adoption of IPSASs in applying IPSAS 5. This relief can only be adopted to the extent that the information is available.

BC71. The IPSASB does not want to encourage first-time adopters to adopt the allowed alternative treatment. Therefore it was agreed that where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred on qualifying assets both before and after the date of adoption of IPSASs, for which the commencement date for capitalization is prior to the date of adoption of IPSASs, should be recognized retrospectively where the first-time adopter has not taken advantage of the transitional relief to not recognise and/or measure assets for a period of three years.

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

BC72. The IPSASB considered whether it should provide transitional relief that allows a first-time adopter to not present consolidated financial statements on adoption of IPSASs. In considering this proposal, it was argued that providing such an exemption would contradict the concept of a reporting entity and would not result in fair presentation.

BC73. The IPSASB therefore agreed that providing a relief period to not present consolidated financial statements should not be provided, but instead, a first-time adopter should be given a three year relief period from eliminating balances, transactions, revenues and expenses between entities within the economic entity.

BC74. As some balances, transactions revenues and expenses may be known on adoption of IPSASs, a first-time adopter is encouraged to eliminate only those known balances, transactions revenues and expenses.

BC75. For the same reason, the IPSASB agreed that a similar exemption should also be provided where a first-time adopter has one or more jointly controlled entity in terms of IPSAS 8, and where it has one or more associate in terms of IPSAS 7.

Providing a three year relief for the initial recognition and/or measurement of interests in other entities

BC76. Following comments received on Exposure Draft, the IPSASB agreed that relief should be provided to a first-time adopter for the initial recognition and/or measurement of its interests in other entities. This relief would allow those first-time adopters that have not gathered the necessary information on the date of adoption, more time to appropriately classify and measure their interests in other entities. The relief provided is consistent with that provided for financial instruments.

Presenting consolidated financial statements where the three year relief is adopted for the initial recognition and/or measurement of interests in other entities and/or to not eliminate inter-entity balances, transactions, revenue and expenses

BC77. Some respondents to the Exposure Draft expressed a view that relief should be provided from preparing consolidated financial statements where a first-time adopter has elected to not eliminate some, or all of the inter-entity balances, transactions, revenue and expenses between entities within the economic entity. The IPSASB concluded that the financial statements that are presented where a first-time adopter has taken advantage of the three year relief for the initial recognition and/or measurement of interests in other entities, and/or where it has elected to not eliminate some, or all inter-entity balances, transactions, revenue and expenses, cannot be presented as consolidated financial statements, until (a) the exemptions that provided the relief have expired, and/or (b) inter-entity balances, transactions, revenue and expenses have been eliminated, and/or (c) its interests other entities have been recognized and/or measured appropriately. The IPSASB agreed that disclosure requirements should be added to explain to users why the financial statements are not presented as consolidated financial statements.

BC78. The IPSASB agreed that providing this clarification is necessary because, where a first-time adopter has not eliminated inter-entity balances, transactions, revenue and expenses as required by IPSAS 35 preparing consolidated financial statements will merely be an aggregation of inter-entity balances, transactions, revenue and expenses within the economic entity. Such statements would not be useful for accountability and decision-making purposes.

BC79. Likewise eliminating the carrying amount of an investment in the controlled entity as required by IPSAS 35 may not be possible if the first-time adopter has not recognized and/measured its interest in other entities as required by the applicable IPSASs.

IPSAS 40, Public Sector Combinations

BC79A. In developing IPSAS 40, *Public Sector Combinations*, the IPSASB considered whether it should provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination. The IPSASB noted that IPSAS 40 is applied prospectively, and so its application would not require a first-time adopter to adjust their accounting for a public sector combination that occurred prior to the application of that Standard. However, a public sector combination could occur during a first-time adopter's three year transitional relief period. The IPSASB considered that requiring a first-time adopter to recognize and measure all the assets and liabilities associated with a public sector combination without requiring them to recognize and measure all similar assets and liabilities would not provide useful information for the users of the financial statements.

BC79B. Consequently, the IPSASB agreed to provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination as part of this Standard. The IPSASB also agreed that a first-time adopter should not recognize goodwill where it did not recognize and/or measure all the assets and/or liabilities associated with a public sector combination.

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 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.

BC81. While it could be argued that the use of fair value would lead to a lack of comparability, the IPSASB noted that cost is generally equivalent to fair value at the date of acquisition. Therefore, the use of fair value as the deemed cost of an asset means that a first-time adopter reports the same cost data as if it had acquired an asset with the same value or same remaining service potential at the date of adoption of IPSASs. If there is any lack of comparability, it arises from the aggregation of costs incurred at different dates, rather than from the use of fair value as deemed cost for some assets at a date. In the view of the IPSASB, using deemed cost facilitates the introduction of IPSASs in a cost-effective way.

BC82. Under the revaluation model in IPSAS 17, if an entity revalues an asset, it must revalue all assets in that class. This restriction prevents selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB 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* requires an impairment test if there is any indication that an asset is impaired. Thus, if a first-time adopter uses fair value as deemed cost for assets whose fair value is likely to be above cost, it cannot ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount.

BC83. The IPSASB also considered the circumstances under which a first-time adopter should be allowed to determine a deemed cost on initial adoption of IPSAS, 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 IPSASB considered whether the use of a deemed cost should be restricted to those situations where cost information is not available for assets, or whether it should be allowed in all circumstances, irrespective of whether cost information is available on the date of adoption of IPSASs, or the date on which the asset is recognized and/or measured where a first-time adopter has taken advantage of the exemption that provides a three year transitional relief period to not recognize and/or measured certain assets.

BC84. The IPSASB agreed that, to avoid the selective valuation of assets, the use of a deemed cost should be restricted to those circumstances where reliable information about the historical cost of the asset is not available.

Deemed Cost for Investments in Controlled Entities, Joint Ventures or Associates

BC85. The IPSASB also agreed that a first-time adopter may elect to measure an investment in a controlled entity, joint venture or associate at cost in its separate financial statements on the date of adoption of IPSASs at either cost as determined in accordance with IPSAS 6, or deemed cost. Deemed cost is determined as fair value in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*.

Deemed Cost for Intangible Assets

BC86. In considering whether a first-time adopter should be allowed to determine a deemed cost for intangible assets, the IPSASB considered the existing transitional provisions in IPSAS 31. IPSAS 31 allows a first-time adopter to use a previous revaluation of intangible assets at, or before, the date of transition as deemed cost at the date of the revaluation if the revaluation is broadly comparable to fair value or cost or depreciated cost that is adjusted to reflect for example, changes in a general or specific price index. IPSAS 31, however, only allows a first-time adopter to determine a deemed cost if the recognition criteria in IPSAS 31 (including the reliable measurement of original cost), and the criteria for revaluation (including the existence of an active market), have been met.

BC87. The IPSASB debated whether public sector entities will be likely to fulfil the second criterion on initial adoption of IPSAS, i.e. existence of an active market. The IPSASB acknowledged that it may be uncommon for an active market to exist in the public sector for intangible assets, and as a consequence, the use of the deemed cost approach will likely be considerably restricted. As a result, a first-time adopter may be unable to determine a deemed cost for some intangible assets such as in-house developed IT systems.

BC88. The IPSASB considered whether the reliable measurement of original cost should be required for first-time adopters which previously applied a cash basis of accounting, as some entities might find it cumbersome to identify the original cost of their intangible assets. It was also argued that where a first-time adopter has previously applied the accrual basis of accounting and it has acquired intangible assets through a non-exchange transaction, it might not be able to reliably measure original cost.

BC89. Based on these considerations, the IPSASB concluded that the reliable measurement of the original cost should be excluded as a criterion for the application of the deemed cost approach on first-time adoption of IPSASs.

BC90. The IPSASB therefore agreed that a first-time adopter is allowed to determine a deemed cost for intangible assets where that deemed costs meets: (a) the recognition criteria in IPSAS 31 (excluding the reliable measurement criterion) and (b) the criteria in IPSAS 31 for revaluation (including the existence of an active market).

BC91. In considering whether a first-time adopter should be allowed to determine a deemed cost for internally generated intangible assets, the IPSASB concluded that it would be difficult to retrospectively assess the probability of expected future economic benefits or service potential through reasonable and supportable assumptions as management would not be able to apply hindsight in obtaining such information. Due to the absence of reliable information on the date of adoption of IPSASs, it was therefore agreed that a deemed cost may not be determined for internally generated intangible assets.

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC92. The IPSASB 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 comply with IPSASs. This IPSAS therefore allows 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 may be used if the revaluation is, 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 considered, where such guidance is provided. In IPSAS 17 it is noted that fair value is normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also states that if market based evidence is not available to measure items of property, plant and equipment, an entity can 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 a market-based value, and that limited guidance is 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.

BC95. The IPSASB agreed that a first-time adopter may consider the following measurement alternatives in determining a deemed cost if reliable market-based evidence of fair value is 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.

Determining a Deemed Cost Where the First-Time Adopter has Taken Advantage of the Three Year Transitional Exemption Period

BC96. The IPSASB concluded that, to the extent that a first-time adopter has elected to adopt one of more of the transitional exemptions that provides relief for the recognition and/or measurement of assets, it may not be able to retrospectively adjust the value of the asset to the date of adoption of accrual basis IPSASs. Retrospectively adjusting the value of the asset would require consideration of the price of the asset and other market factors that existed on the date of adoption of accrual basis IPSASs, including whether there was any indication that the asset was impaired.

BC97. The IPSASB concluded that this would not be cost effective. It was therefore agreed that, where a first-time adopter takes advantage of the exemption which allows a three year transitional relief period to not recognize and/or measure an asset, it may determine a deemed cost for that asset at any point of time within the three year transitional relief period. Any adjustments resulting from the recognition of the asset are recognized against the opening accumulated surplus or deficit in the year in which asset is recognized and/or measured.

IPSAS 18, Segment Reporting

BC98. The IPSASB considered whether relief should be provided to a first-time adopter for the presentation of segment information. The IPSASB agreed that, despite the fact that the presentation of segment information might be useful, a first-time adopter should be provided a relief period, as the information used in presenting segment information needs to be built on existing information in the financial statements.

BC99. As the IPSASB agreed to allow a three year transitional relief period for the recognition and/or measurement of assets and liabilities, the information which is needed to present segment information may only be available when the exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier). As relevant and reliable information may not be available to present a meaningful segment report during the period of transition, and because the presentation of a segment report may not be a priority for users during the transition to accrual basis IPSASs it was agreed that a three year exemption period should also be provided for the presentation of segment information.

BC100. The IPSASB also concluded that, because segment information is additional to the information required on the elements presented in the financial statements, allowing this relief is appropriate.

IPSAS 20, Related Party Disclosures

BC101. In providing a first-time adopter time to build up information on its related party relationships and related party transactions, the IPSASB agreed that the disclosure of related party relationships, related party transactions and information about key management personnel should be treated in the same way as the required eliminations of balances, transactions, revenue and expenses between entities in IPSAS 6 to 8.

BC102. This IPSAS therefore provides a transitional exemption for a period of three years for the disclosure of related party relationships, related party transactions and information about key management personnel.

IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets

BC103. The IPSASB acknowledged that a first-time adopter may have applied an accounting policy for the recognition and reversal of impairment losses that are different to the requirements in IPSAS 21 and 26, or may have not considered impairment at all. On adoption of IPSASs, it may be difficult to determine the amount of adjustments resulting from retrospective application of a change in an accounting policy, as this requires hindsight.

BC104. As a result, the IPSASB agreed that IPSAS 21 and 26 should be applied prospectively, but that the first-time adopter should be required to assess whether an indicator of impairment has been triggered for its cash-generating and non-cash-generating assets in the opening statement of financial position.

BC105. In recognizing the effect of an impairment loss on first-time adoption of IPSAS 21 or IPSAS 26, the IPSASB considered two options. The first option was to measure such assets at their recoverable amount, or recoverable service amount and use that as the deemed cost. The IPSASB noted that the effect of applying this option may means that impairment losses could not be reversed in the future. This option was therefore not seen as appropriate.

BC106. The second option, which provides more relevant information is to measure the assets at their recoverable amount, or recoverable service amount, and report the effect in net assets/equity. The IPSASB supported this option.

Timing of Impairment Test for Assets Where an Entity Adopts the Relief Period for the Recognition of Assets

BC107. The IPSASB concluded that where a first-time adopter takes advantage of the exemption that provides relief for the recognition and/or measurement of assets, it may be difficult to retrospectively adjust the value of the asset to the date of adoption of IPSASs. A first-time adopter may find it difficult to determine the amount of adjustments that would be required based on impairment that may or may not have existed at the date of transition.

BC108. The IPSASB therefore agreed that IPSAS 21 and IPSAS 26 should be applied prospectively from the date when the transitional exemptions that provided the relief have expired, or when the relevant asset is recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

IPSAS 39, Employee Benefits

BC109. The IPSASB also agreed that, where a first-time adopter takes advantage of the exemptions that provide relief for the recognition and/or measurement of liabilities, it should provide information about amounts for the current and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan and adjustments as required by IPSAS 39 prospectively.

IPSAS 28, Financial Instruments: Presentation

BC110. IPSAS 28 requires an entity to split a compound financial instrument at inception of the agreement, into separate liability and equity components. It was concluded that separating these two portions would be costly and would not provide relevant information to users of financial statements if the liability component of the compound instrument is no longer outstanding at the date of adoption of IPSASs. As a result, this IPSAS requires that, if the liability component is no longer outstanding at the date of adoption of IPSAS, the first-time adopter need not separate the cumulative interest on the liability component from the net assets/equity component.

IPSAS 29, Financial Instruments: Recognition and Measurement

BC111. The IPSASB concluded that, as it is in most instances impracticable to apply impairment principles retrospectively, the impairment of financial instruments should be applied prospectively. This exemption is consistent with the exemption provided for non-cash-generating assets and cash-generating assets in accordance with IPSAS 21 and 26.

IPSAS 30, Financial Instruments: Disclosures

BC112. The IPSASB concluded that if a first-time adopter did not disclose information relating to financial instruments, and the nature and extent of risks arising from financial instruments under its previous basis of accounting, obtaining such information may be costly, and therefore is not feasible.

BC113. The IPSASB therefore agreed that the disclosure requirements relating to financial instruments should be applied prospectively from the date of adoption of IPSAS, 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 financial assets, when the exemptions expire, or when the relevant items are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

BC114. To the extent that a first-time adopter elects to present comparative information, it was agreed that a first-time adopter need not present comparative information for disclosures relating to the nature and extent of risks arising from financial instruments for the comparative period because obtaining such information may be costly, and is therefore not feasible.

IPSAS 31, Intangible Assets

BC115. On first-time adoption of IPSASs, a first-time adopter will be required to recognize all assets and liabilities for which recognition is required by IPSASs. IPSAS 31 requires that past expenditure on an intangible asset that was initially recognized as an expense should not be recognized as part of the cost of an intangible asset at a later date.

BC116. The IPSASB concluded that, because a first-time adopter may have expensed costs incurred on intangible assets under its previous basis of accounting prior to the adoption of IPSASs, a first-time adopter should be allowed to recognize all intangible assets that meet the recognition criteria and other criteria in IPSAS 31 (i.e., identifiable control of an asset and that future economic benefits or service potential that are attributable to the asset will flow to the entity), even though such costs may have been expensed prior to adoption of IPSASs. It was however, confirmed that such assets should only be recognized as intangible assets if reliable cost information is available and an active market exists for that asset on the date of adoption of IPSASs.

Interests in Other Entities

BC117. The IPSASB considered whether IPSAS 33 should refer to IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates,* and IPSAS 8, *Interests in Joint Ventures,* as well as IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, and IPSAS 36, *Investments in Associates and Joint Ventures*, which were published in January 2015 with an effective date of January 1, 2017, with early adoption permitted. The IPSASB noted that as IPSAS 33 was published in January 2015, any entity adopting IPSAS 33 and electing to apply the 3 year exemptions, would be required to apply IPSASs 34–36 by the time the transitional period is complete. The IPSASB formed a view that it was very unlikely that entities adopting IPSAS 33, prior to January 1, 2017, would adopt IPSASs 6–8 as this would require a further transition to IPSAS 34–36 shortly afterwards. The IPSASB therefore concluded that IPSAS 33 should not include provisions relating to IPSASs 6-8.

Revision of IPSAS 33 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC118. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 33.

Date of Adoption of IPSASs

IG2. The date of adoption of IPSASs is the date an entity adopts accrual basis IPSAS for the first time in preparing its financial statements.

IG3. Prior to the adoption of this IPSAS, a first-time adopter shall have adequately prepared for its transition to accrual basis IPSASs. The guidance provided in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* issued by the IPSASB, may assist a first-time adopter with planning the conversion to accrual basis IPSASs. The relief provided in this IPSAS shall therefore not be seen as a complete roadmap for the adoption of accrual basis IPSASs, but rather the end stage of the adoption process.

IG4. A first-time adopters' date of adoption will therefore to be the start of the reporting period in which it elects to adopt accrual basis IPSASs for which it presents its transitional IPSAS financial statements or its first IPSAS financial statements. For example, an entity elects to adopt accrual basis IPSASs from January 1, 20X1 for its reporting period ending December 31,20X1. The date of adoption of IPSASs will be January 1, 20X1.

Transitional IPSAS Financial Statements

IG5. On the date of adoption of IPSASs, a first-time adopter may elect to adopt one of more of the exemptions included in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).* Some of the exemptions included in IPSAS 33 affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs (Appendix A lists the 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 and illustrates whether fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs will be affected).

IG6. As a first-time adopter is not able to make an explicit and unreserved statement of compliance with accrual basis IPSASs following the adoption of the exemptions provided in IPSAS 33, the financial statements presented for the first reporting period following the adoption of accrual basis IPSASs, will be referred to as the "transitional IPSAS financial statements".

IG7. For example, if the first-time adopter adopts the transitional exemption that provides relief for the recognition of certain items of property, plant and equipment when adopting accrual basis IPSASs on January 1, 20X1, it would not be able to make an explicit and unreserved statement of compliance with accrual basis IPSASs at the end of its first reporting period, i.e. December 31, 20X1. The financial statements prepared for the first reporting period, will therefore be referred to as the "first transitional IPSAS financial statements".

IG8. The financial statements presented during the period of transition until the exemptions that provided the relief have expired, and/or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSASs, will be referred to as the "transitional IPSAS financial statements".

Basis of Preparation When Preparing Transitional IPSAS Financial Statements

IG9. As stated in paragraph 27 of IPSAS 33, a first-time adopter that elects to adopt one or more of the exemptions included in IPSAS 33, may not be able to make an explicit and unreserved statement of compliance with accrual basis IPSASs as required by IPSAS 1. During the period of transition, this fact shall be highlighted to the users of financial statements in presenting the "basis of preparation" in the financial statements.

IG10. As an illustration, if a first-time adopter elected to adopt the transitional exemption that allows it three years in which to recognize and/or measure investment property, the following explanation may be provided in the "basis of preparation" paragraph in the financial statements during the period of transition:

Basis of preparation

The financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSASs). IPSAS 33 allows a first-time adopter a period of up to three years to recognize and/or measure certain assets and/or liabilities.

In its transition to accrual basis IPSASs, Public Sector Entity X took advantage of this transitional exemption for investment property. As a result, it is unable to make and explicit an unreserved statement of compliance with accrual basis IPSASs in preparing its transitional IPSAS financial statements for this reporting period. Public Sector Entity X intends to recognize and/or measure its investment property by 20X3.

First IPSAS Financial Statements

IG11. A first-time adopter's first IPSAS financial statements will be the first set of financial statements that it presents in which it makes an explicit and unreserved statement of compliance with accrual basis IPSASs.

IG12. A first-time adopter will not be able to prepare its first IPSAS financial statements until the exemptions in IPSAS 33 that provided relief which affected fair presentation and compliance with IPSAS, have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSASs (whichever is earlier).

IG13. Following from the example in IG5, the transitional exemptions that provided the relief for the recognition of certain items of property, plant and equipment expire after three years, i.e. December 31, 20X3. If it is assumed that the entity has not adopted any other transitional exemptions in IPSAS 33 that affect fair presentation and compliance with IPSASs, and that it recognizes and/or measures the items of property, plant and equipment during the transitional period, a first-time adopter will present its first IPSAS financial statements for the period ending December 31, 20X3.

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:

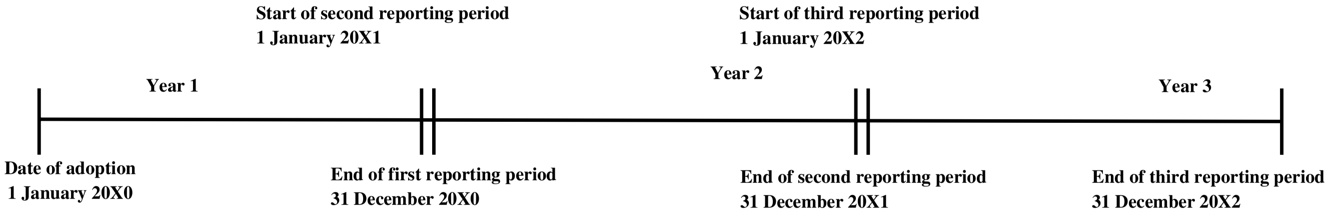
Timeline – First Time Adoption IPSAS (assuming that entity elects to apply the three year transitional relief for the recognition and/or measurement of certain assets)

An entity adopts accrual basis IPSASs 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 of 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 20X2.

FIRST-TIME ADOPTION OF ACCRUAL BASIS IPSASS



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)**

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**

Estimates

IG15. Paragraph 23 of IPSAS 33 requires that a first-time adopter's estimates in accordance with IPSASs at the date of adoption of IPSASs shall be consistent with estimates made at the end of its comparative period in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. An entity may receive information after the date of adoption of IPSASs about estimates that it had made under the previous basis of accounting. In accordance with paragraph 24, a first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period*.

IG16. For example, assume that a first-time adopter's date of adoption of IPSASs is January 1, 20X4 and new information on July 15, 20X4 requires the revision of an estimate made in accordance with the previous basis of accounting at December 31, 20X3. The first-time adopter shall not reflect that new information in its opening statement of financial position (unless the estimates require adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the first-time adopter shall reflect that new information in surplus or deficit for the year ended December 31, 20X4.

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

IG17. IPSAS 33 provides a first-time adopter a period of up to three years' relief in which it is allowed to not recognize and/or measure certain assets and liabilities. Where a first-time adopter takes advantage of this exemption, it will have to consider and analyze title deeds, contracts and other similar arrangements in accounting for, and classifying these assets in accordance with the applicable IPSAS.

IG18. For example, assume that a first-time adopter controls a wide range of property, plant and equipment when it adopts accrual basis IPSASs on January 1, 20X1. If the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure the property, plant and equipment, it may recognize and/or measure the property, plant and equipment during the period of transition from January 1, 20X1 until December 31, 20X3. If the property, plant and equipment is recognized for example, on April 1, 20X2, the first-time adopter shall adjust the opening accumulated surplus or deficit on January 1, 20X2. As required by paragraph 142 of IPSAS 33, the first-time adopter shall, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at December 31, 20X1 (i.e. the opening balance as at January 1, 20X2) for the property, plant and equipment that was recognized on April 1, 20X2.

IG19. Where a first-time adopter has taken advantage of the three year relief period, it shall not derecognise any of the assets and/or liabilities that were recognized under its previous basis of accounting unless it is to comply with an IPSAS requirement. Any adjustments to the assets and/or liabilities recognized under its previous basis of accounting shall be adjusted during the period of transition against the opening accumulated surplus of deficit in the period in which the adjustment is made.

Accounting for Finance Leases Assets and Finance Lease Liabilities

IG20. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize its finance lease assets, it will also not be able to comply with the recognition requirements relating to the finance lease liabilities, until the transitional exemptions related to the finance leased assets have expired, or the finance leased assets have been recognized in accordance with IPSAS 13.

IG21. For example, assume that a first-time has a motor vehicle that is subject to a finance lease agreement on the date of adoption of accrual basis IPSASs on January 1, 20X1. The first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize the motor vehicle. The motor vehicle is recognized on December 31, 20X3 when the exemption expires. IPSAS 33 requires the first-time adopter to only recognize the corresponding finance lease liability for the motor vehicle on December 31, 20X3, i.e. on the date that the finance lease asset (the motor vehicle) is recognized.

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant and Equipment

IG22. IPSAS 17 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 recognising 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 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 (whichever is earlier).

IG24. For example, an entity adopts accrual basis IPSASs on January 1, 20X1 and takes advantage of the exemption in IPSAS 33 that provides a three year transitional relief period to not recognize a government owned nuclear power station. The first-time adopter determines a deemed cost for the asset on June 30, 20X3 and recognizes the asset on that date at CU1,000,000. The first-time adopter determines that it has a decommissioning obligation under IPSAS 19 of CU500,000 at the date of adoption of IPSASs. The obligation amounts to CU550,000 on June 30, 20X3 when the asset is recognized.

IG25. IPSAS 33 requires the first-time adopter to only recognize and/or measure its obligation relating to the dismantling and restoring of the site on June 30, 20X3, i.e. the date on which the asset is recognized. The liability will be measured at CU550,000 which reflects the first-time adopter's obligation on the date that the asset is recognized. The first-time adopter shall, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at December 31, 20X2 (i.e. the opening balance as at January 1, 20X3) for the recognition of the obligation and the related asset that was recognized on June 30, 20X2.

Borrowing Costs Incurred on Qualifying Assets

IG26. Paragraph 90 of IPSAS 33 requires that, where a first-time adopter elects to account for borrowing costs in accordance with the allowed alternative treatment, it is required to apply the requirements in IPSAS 5, *Borrowing Costs* retrospectively, for any borrowing costs incurred on qualifying assets before the date for adoption of IPSASs.

IG27. Paragraph 44 of IPSAS 33 provides an exemption to this requirement by allowing a first-time adopter to commence capitalization of borrowings costs incurred on qualifying assets after the recognition of an asset where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period for the recognition of assets.

IG28. For example, a first-time adopter adopts the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. The date of adoption of IPSASs is January 1, 20X1. The first-time adopter determines that the borrowing cost incurred prior to the adoption of IPSASs on January 1, 20X1 amounts to CU500,000 and that borrowing costs incurred at the end following two reporting periods amounted to CU20,000 and CU30,000. In addition, the first-time adopter adopts the exemption that provides three year transitional relief from the recognition of property, plant and equipment and as a result, recognizes the item of property, plant and equipment at the end of the second reporting period at CU1,000,000.

At the end of 20X2, the item of property, plant and equipment recognized on the statement of financial position will be CU1,030,000 (CU1,000,000 + CU30,000). Borrowing costs incurred prior to the recognition of the item of property, plant and equipment, i.e. CU500,000 and CU20,000 shall not be included as part of the cost of the qualifying asset.

Presenting Comparative Information

IG29. Paragraph 78 of IPSAS 33 encourages, but does not require an entity to present comparative information in its transitional IPSAS financial statements or its first IPSAS financial statements in accordance with this IPSAS. The decision to present comparative information affects not only the extent of the information presented, but also the date of adoption of IPSASs.

Date of Adoption of IPSASs

IG30. To illustrate: The end of a first-time adopter's first accrual basis reporting period is December 31, 20X5. The first-time adopter decides to present comparative information in those financial statements for one year only (see paragraph 78 of IPSAS 33). Therefore, its date of adoption of IPSASs is the beginning of the comparative period i.e. January 1, 20X4 (or equivalently December 31, 20X3).

Information Presented when a First-Time Adopter Elects to Prepare Comparative Information

IG31. Where the first-time adopter elects to prepare comparative information, it is required to apply the accrual basis IPSASs effective for periods ending on December 31, 20X5 in:

(a) Preparing and presenting its opening accrual basis statement of financial position at January 1, 20X4; and

(b) Preparing and presenting its:

  (i) Statement of financial position for December 31, 20X5 (including comparative amounts for 20X4);

  (ii) Statement of financial performance (including comparative amounts for 20X4);

  (iii) Statement of changes in net assets/equity for December 31, 20X5 (including comparative amounts for 20X4);

  (iv) Statement of cash flows for the year to December 31, 20X5 (including comparative amounts for 20X4);

  (v) Disclosures (including comparative information for 20X4);

  (vi) A comparison of budget and actual amounts for the year to December 31, 20X5; and

  (vii) Reconciliations in accordance with paragraph 142.

First-Time Adopter Elects to Not Prepare Comparative Information

IG32. Where a first-time adopter elects to not prepare comparative information, it is required to apply the accrual basis effective for periods ending on December 31, 20X5:

(a) Preparing and presenting its opening accrual basis statement of financial position at 1 January 20X5; and

(b) Preparing and presenting its:

(i) Statement of financial position for December 31, 20X5;

(ii) Statement of financial performance for December 31, 20X5;

(iii) Statement of changes in net assets/equity for December 31, 20X5;

(iv) Statement of cash flows for the year to December 31, 20X5;

(v) Disclosures;

(vi) A comparison of budget and actual amounts for the year to December 31, 20X5; and

(vii) Reconciliations in accordance with paragraph 142.

Adoption of Three Year Transitional Relief Period

IG33. Where the first-time adopter takes advantage of the exemptions that provide relief from the recognition and/or measurement of assets and/or liabilities, IPSAS 33 requires it to only adjust comparative information for reporting periods following the date of adoption of IPSASs to the extent that reliable and relevant information is available about the items that have been recognized and/or measured.

IG34. To illustrate: The end of a first-time adopter's first accrual basis reporting period is December 31, 20X2. The first-time adopter on the date of adoption of IPSASs on January 1, 20X1, adopts the transitional exemption providing a three year relief period for the recognition of investment property. At the end of 20X3 the first-time adopter has recognized the investment property, which is included in the statement of financial position as at December 31, 20X3. Only if reliable and relevant information if available about the value of the investment property recognized during 20X3, will the first-time adopter adjust the comparative information presented (i.e., for the period ending December 31, 20X2).

Presenting Reconciliations

IG35. Paragraph 142 of IPSAS 33 requires a first-time adopter to present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSASs for the transitional IPSAS financial statements or its first IPSAS financial statements. A reconciliation is presented of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of IPSASs.

IG36. For example, a first-time adopter, which previously applied a modified-accrual basis of accounting, adopts accrual basis IPSASs on January 1, 20X4 and elects to present comparative information as permitted in IPSAS 33. The first-time adopter shall, in accordance with paragraphs 142 and 143 of IPSAS 33, present a reconciliation in the notes to its transitional IPSAS financial statements that provides sufficient detail to enable users to understand the material adjustments to the opening statement of financial position as at January 1, 20X4, and the restated comparative statement of financial performance, where applicable.

IG37. Paragraph 146 further requires a first-time adopter that takes advantage of the exemptions that provide a three year transitional relief period to not recognize and/or measure items, to present a reconciliation of items that have been recognized and/or measured during the reporting period which were not recognized and/or measured in the previous financial statements.

IG38. Following from the example in IG29, a first-time adopter adopts the exemption in IPSAS 33 that allows it to not recognize investment property for a period of three years. The first-time adopter applies this exemption and only recognizes the investment property at the end of year three, i.e. December 31, 20X4. As an adjustment is made to the opening balance of accumulated surplus or deficit as on January 1, 20X4 in recognizing the investment property, paragraph 146 requires the first-time adopter to present a reconciliation in its notes to the financial statements for the year ending December 31, 20X4 to allow users to understand the adjustment that was made following the recognition of the investment property.

Deemed Cost

IG39. IPSAS 33 allows a first-time adopter to determine a deemed cost as a substitute for acquisition cost or depreciated cost 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 and/or liabilities. A deemed cost may however only be determined if no cost information is available about the historical cost of the asset and/or liability. When a first-time adopter initially measures these assets on the date of adoption of IPSASs, or when the transitional exemptions that provided the first-time adopter with a three year relief period to not recognize and/or measure certain assets have expired, it recognizes the effect:

(a) As an adjustment to the opening balance of accumulated surplus or deficit in the opening statement of financial position in the period in which the deemed is determined; or

(b) In the revaluation surplus if the first-time adopter adopts the revaluation model in IPSAS 17 or in IPSAS 31, *Intangible Assets.*

To illustrate:

Public Sector Entity X adopted accrual basis IPSAS on January 1, 20X4 and applied deemed cost to measure investment property. In applying deemed cost, investment property was valued at CU 1,800,000 on the date of adoption. Public Sector Entity X elected to not present comparative information.

Statement of Changes in Net Assets/Equity for the Year ended December 31, 20X4

	Attributable to owners of the controlling entity		Total net assets/equity
	Accumulated surplus/deficit CU	Other Reserves CU	CU
Opening balance as at January 1, 20X4	210,000	10,000	220,000
Measurement of investment property at deemed cost in accordance with IPSAS 33 (see note 34)	1,500,000		1,500,000
Restated opening balance as at January 1, 20X4	1,710,000	10,000	1,720,000
Surplus for the period	5,000		5,000
Balance as at December 31, 20X4	1,715,000	10,000	1,725,000

Notes to the financial statements of Public Sector Entity X as at December 31, 20X4:

Note 34 – Investment Property

	December 31, 20X4 CU
Opening balance of investment property recognized under previous basis of accounting	300,000
Investment property measured at deemed cost as provided in IPSAS 33 on January 1, 20X4	1,500,000
Restated opening balance of investment property at January 1, 20X4	1,800,000
Additions	…….

Transitional exemptions adopted in IPSAS 33 on adoption of accrual basis IPSASs

Public Sector Entity X adopted accrual basis IPSAS on January 1, 20X4 and applied deemed cost in measuring investment property as reliable cost information about some investment properties was not available. As a result, Public Sector Entity X restated its opening balance of investment property with an additional value of CU1,500,000 on January 1, 20X4.

Note 54 – Reconciliation of net assets/equity and surplus or deficit on January 1, 20X4

Reconciliation of net assets/equity as on January 1, 20X4

	Net assets/equity as on January 1, 20X4
	CU
Opening balance of net assets/equity as on January 1, 20X4 reported under previous basis of accounting	*220,000*
Recognition of investment property at deemed cost (see note 34)	*1,500,000*
Restated opening balance of net assets/equity as on January 1, 20X4	***1,720,000***

Reconciliation of surplus or deficit on January 1, 20X4

	Surplus or deficit on January 1, 20X4
	CU
Surplus or deficit as at 31, December 20X3 as reported under previous basis of accounting	*210,000*
Recognition of investment property at deemed cost (see note 34)	*1,500,000*
Restated surplus or deficit as on January 1, 20X4	***1,710,000***

Determining a Deemed Cost During the Period of Transition

IG40. If a first-time adopter takes advantage of the exemption in IPSAS 33 that provides a three year transitional relief period to not recognize and/or measure an asset, the IPSAS requires that it may determine a deemed cost for that asset during any point of time within the three year transitional relief period.

IG41. Subsequent depreciation and amortization, if applicable, is based on that deemed cost and starts from the date of adoption of IPSASs, or when the transitional exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

IG42. For example, a first-time adopter adopts IPSASs 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 cost model as its subsequent measurement basis in applying IPSAS 16.

IPSAS 5, Borrowing Costs

IG43. An entity adopts the accrual basis IPSASs on January 1, 20X3 and adopts the allowed alternative treatment in accounting for borrowing costs. Borrowing costs directly attributable to the acquisition of the asset amounts to CU525,000, of which CU500,000 was incurred prior to the adoption of accrual basis IPSASs, while CU25,000 was incurred in the first reporting period ending December 31, 20X3. Paragraph 90 of IPSAS 33 requires the first-time adopter to retrospectively recognize any borrowing costs incurred prior to the adoption of accrual basis IPSASs when it adopts the allowed alternative method. Therefore, CU500,000 shall be capitalized to the cost of the asset recognized in the opening statement of financial position as at January 1, 20X3.

IG44. If the entity has elected to apply the benchmark treatment, paragraph 88 of IPSAS 33 encourages, but does not require, the first-time adopter to apply the accounting policy retrospectively. If the first-time adopter elects to apply its accounting policy prospectively, it will only expense CU25,000 in the statement of financial performance for the period ending December 31, 20X3.

IPSAS 9, Revenue from Exchange Transactions

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with IPSAS 9 (for example, the proceeds of a sale that does not qualify for recognition as revenue), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It shall derecognize the liability and recognize the revenue in its statement of financial performance when the recognition criteria in IPSAS 9 are met.

IPSAS 10, Financial Reporting in Hyperinflationary Economies

IG46. A first-time adopter complies with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* in determining its functional currency and presentation currency. When the first-time adopter prepares its opening statement of financial position, it applies IPSAS 10, *Hyperinflationary Economies,* to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

IG47. If the first-time adopter elects to use the exemptions in paragraphs 64 to 76 of IPSAS 33, it applies IPSAS 10 to periods after the date for which the revalued amount or fair value was determined.

IPSAS 14, Events After the Reporting Date

IG48. Except as described in paragraph IG49, a first-time adopter applies IPSAS 14, *Events After the Reporting Date* in determining whether:

(a) Its opening statement of financial position reflects an event that occurred after the date of transition; and

(b) Comparative amounts in its transitional IPSAS financial statements or its first IPSAS financial statements, where applicable, reflect an event that occurred after the end of that comparative period.

IG49. Paragraphs 23–26 of IPSAS 33 require some modifications to the principles in IPSAS 14 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of adoption of IPSASs (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 23–26 of IPSAS 33 do not require modifications to the principles in IPSAS 14.

(a) Case 1—If a first-time adopter's previous basis of accounting required estimates of similar items for the date of adoption of IPSASs, using an accounting policy that is consistent with IPSASs. In this case, the estimates in accordance with IPSASs need to be consistent with estimates made for that date in accordance with previous basis of accounting, unless there is objective evidence that those estimates were in error (see IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*). The first-time adopter reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of adoption of IPSASs.

(b) Case 2—Previous basis of accounting required estimates of similar items for the date of adoption of IPSASs, but the first-time adopter made those estimates using accounting policies that are not consistent with its accounting policies in accordance with IPSASs. In this case, the estimates in accordance with IPSASs need to be consistent with the estimates required in accordance with the previous basis of accounting for that date (unless there is objective evidence that those estimates were in error), after adjusting for the difference in accounting policies. The opening statement of financial position reflects those adjustments for the difference in accounting policies. As in case 1, the first-time adopter reports later revisions to those estimates as events of the period in which it makes the revisions.

For example, the previous basis of accounting may have required a first-time adopter to recognize and measure provisions on a basis consistent with IPSAS 19, *Provisions, Contingent Liabilities and*

Contingent Assets, except that the previous basis of accounting's measurement was on an undiscounted basis. In this example, the first-time adopter uses the estimates in accordance with its previous basis of accounting as inputs in making the discounted measurement required by IPSAS 19.

(c) Case 3—Previous basis of accounting did not require estimates of similar items for the date of adoption of IPSASs. Estimates in accordance with IPSASs for that date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of adoption of IPSASs reflect market conditions at that date. This is consistent with the distinction in IPSAS 14 between adjusting events after the reporting period and non-adjusting events after the reporting period.

IG50. To illustrate: Entity A's first transitional IPSAS financial statements are for the period ending December 31, 20X5 with the first-time adopter electing to present comparative information. In terms of its previous basis of accounting the following transactions and events are noted in entity A's financial statements for December 31, 20X3 and 20X4:

(a) Estimates of accrued expenses and provisions were made at those dates;

(b) The entity accounted on a cash basis for a defined benefit pension plan; and

(c) No provision was recognized for a court case arising from events that occurred in September 20X4. When the court case was concluded on June 30, 20X5, entity A was required to pay CU1000 and paid this on July 10, 20X5.

In preparing its transitional IPSAS financial statements, entity A concludes that its estimates in accordance with its previous basis of accounting of accrued expenses and provisions at December 31, 20X3 and 20X4 were made on a basis consistent with its accounting policies in accordance with IPSASs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those overestimates and underestimates involves the routine adjustment of estimates in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Application of Requirements

In preparing its opening statement of financial position at January 1, 20X4 and in its comparative statement of financial position at December 31, 20X4, entity A:

(a) Does not adjust the previous estimates for accrued expenses and provisions; and

(b) Makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with IPSAS 39, *Employee Benefits*. Entity A's actuarial assumptions at January 1, 20X4 and December 31, 20X4 do not reflect conditions that arose after those dates. For example, entity A's:

 (i) Discount rates at January 1, 20X4 and December 31, 20X4 for the pension plan and for provisions reflect market conditions at those dates; and

 (ii) Actuarial assumptions at January 1, 20X4 and December 31, 20X4 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 20X5.

The treatment of the court case at December 31, 20X4 depends on the reason why entity A did not recognize a provision in accordance with its previous basis of accounting at that date.

Assumption 1 – The previous basis of accounting was consistent with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with IPSASs are consistent with its assumptions in accordance with its previous basis of accounting. Therefore, entity A does not recognize a provision at December 31, 20X4.

Assumption 2 – Entity A's previous basis of accounting was not consistent with IPSAS 19. Therefore, entity A develops estimates in accordance with IPSAS 19. Under IPSAS 19, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with IPSAS 14, *Events after the Reporting Period*, the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 20X4 (when the events occurred that gave rise to the court case). Therefore, entity A recognizes a provision at December 31, 20X4. Entity A measures that provision by discounting the CU1 000 paid on July 10, 20X5 to its present value, using a discount rate that complies with IPSAS 19 and reflects market conditions at December 31, 20X4.

IG51. Paragraphs 23–26 of the IPSAS 33 do not override requirements in other IPSASs that base classifications or measurements on circumstances existing at a particular date. Examples include:

(a) The distinction between finance leases and operating leases (see IPSAS 13, *Leases*); and

(b) The distinction between financial liabilities and equity instruments (see IPSAS 28, *Financial Instruments: Presentation*).

IPSAS 13, Leases

IG52. In accordance with paragraph 95 of IPSAS 33 and paragraph 18 of IPSAS 13, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease, on the date of adoption of accrual basis IPSASs. In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification in accordance with IPSAS 13 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new agreement over its term from the date of adoption of accrual basis IPSASs. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.

IPSAS 17, 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 (paragraphs 22 and 26 of IPSAS 33 and paragraph 76 of IPSAS 17. 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) 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 (whichever is earlier).

IG56. If a first-time adopter chooses as its accounting policy the revaluation model in IPSAS 17 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 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 (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) Cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the cost model in IPSAS 17;

(b) Deemed cost, being the fair value or an alternative when market-based evidence of 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 model in IPSAS 17 as its accounting policy in accordance with IPSASs for all items of property, plant and equipment in the same class.

IG58. IPSAS 17 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 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 (paragraphs 18 and 59).

IPSAS 39, Employee Benefits

IG59. At the date of adoption of IPSASs, a first-time adopter applies IPSAS 39 in measuring defined benefits plans and other long-term employee benefits, and recognizes all cumulative actuarial gains or losses from the inception of the plan until 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 from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier).

IG60. A first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), are consistent with actuarial assumptions made at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33) in accordance with its previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 23 of the IPSAS 33). Any later revisions to those assumptions are an actuarial gain or loss of the period in which the first-time adopter makes the revisions.

IG61. A first-time adopter may need to make actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), that were not necessary in accordance with its basis of accounting. Such actuarial assumptions do not reflect conditions that arose after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier). In particular, discount rates and the fair value of plan assets at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the liabilities are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), reflect market conditions at that date. Similarly, the first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier) (paragraph 23 of IPSAS 33).

IG62. In many cases, a first-time adopter's transitional IPSAS financial statements or its first IPSAS financial statements will reflect measurements of employee benefit obligations at three dates (where a first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33): the end of the first reporting period, the date of the comparative statement of financial position (where the first-time adopter elects to present comparative information) and the date of adoption of IPSASs, or where the first-time adopter takes advantages of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier). IPSAS 39 encourages the first-time adopter to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimize costs, a first-time adopter may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (paragraph 68 of IPSAS 25).

IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets

IG63. Paragraph 98 and 108 of IPSAS 33 requires a first-time adopter to apply the requirements in IPSAS 21 and IPSAS 26 prospectively from the date of adoption of accrual basis IPSASs, or where a first-time adopter takes advantage of the exemptions that provide a three year transitional relief period to not recognize and/or measure an asset, the date when the exemptions that provided the relief expire and/or the asset is recognized and/or measured. For example, if an entity adopts accrual basis IPSASs on January 1, 20X1 and takes advantage of the three year transitional relief period to not recognize and/or measure an item or property, plant and equipment, if would not be required to assess the item of property, plant and equipment for impairment until (a) December 31, 20X3 (i.e. the date on which the transitional exemption expire) or (b) the date following the recognition of the item of property, plant and equipment if it was recognized and/or measured during the period of transition (whichever is earlier).

IG64. The estimates used to determine whether a first-time adopter recognizes an impairment loss (and to measure any such impairment loss) at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) are consistent with estimates made for at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33) the first-time adopter's previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 23 and 24 of IPSAS 33). The first-time adopter reports any later revisions to those estimates as an event of the period in which it makes the revisions.

IG65. In assessing whether it needs to recognize an impairment loss (and in measuring any such impairment loss) at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), the first-time adopter may need to make estimates for that date that were not necessary in accordance with its previous basis of accounting. Such estimates and assumptions do not reflect conditions that arose after the date of transition, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) (paragraph 25 of IPSAS 33).

IPSAS 28, Financial Instruments: Presentation

IG66. In its opening statement of financial position, a first-time adopter applies the criteria in IPSAS 28 to classify financial instruments issued (or components of compound instruments issued) as either financial liabilities or net asset/equity instruments in accordance with the substance of the contractual arrangement when the instrument first satisfied the recognition criteria in IPSAS 28 (paragraphs 13 and 35), without considering events after that date (other than changes to the terms of the instruments).

IPSAS 29, Financial Instruments: Recognition and Measurement

Recognition

IG67. A first-time adopter recognizes all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with IPSAS 29 and have not yet qualified for derecognition in accordance with IPSAS 29, except non-derivative financial assets and non-derivative financial liabilities derecognized in accordance with its previous basis of accounting before the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), to which the first-time adopter does not choose to apply paragraph 116 of IPSAS 33 (see paragraphs 115 and 116 of IPSAS 33).

IG68. For example, a first-time adopter that does not apply paragraph 116 of IPSAS 33 does not recognize assets transferred in a securitization, transfer or other derecognition transaction that occurred before the date of adoption of IPSASs if those transactions qualified for derecognition in accordance with its previous basis of accounting. However, if the first-time adopter uses the same securitization arrangement or other derecognition arrangement for further transfers after the date of transition to IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), those further transfers qualify for derecognition only if they meet the derecognition criteria of IPSAS 29.

Embedded Derivatives

IG69. When IPSAS 29 requires a first-time adopter to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IPSAS 29 reflect circumstances at that date (IPSAS 29 paragraph 12). If the first-time adopter cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it measures the entire combined contract as at fair value through surplus or deficit (IPSAS 29 paragraph 14).

Measurement

IG70. In preparing its opening statement of financial position, a first-time adopter applies the criteria in IPSAS 29 to identify those financial assets and financial liabilities that are measured at fair value and those that are measured at amortized cost.

Adjusting the Carrying Amount of Financial Instruments on the Date of Adoption of Accrual Basis IPSASs or During the Period of Transition

IG71. A first-time adopter shall treat an adjustment to the carrying amount of a financial asset or financial liability as an adjustment to be recognized in the opening balance of accumulated surplus or deficit at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), only to the extent that it results from adopting IPSAS 29. Because all derivatives, other than those that are financial guarantee contracts or are designated and effective hedging instruments, are classified as held for trading, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognized as an adjustment of the balance of accumulated surplus or deficit at the beginning of the financial year in which IPSAS 29 is initially applied, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

Hedge Accounting

IG72. Paragraphs 117 to 119 of IPSAS 33 deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.

IG73. A first-time adopter may, in accordance with its previous basis of accounting, have deferred or not recognized gains and losses on a fair value hedge of a hedged item that is not measured at fair value. For such a fair value hedge, a first-time adopter adjusts the carrying amount of the hedged item at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). The adjustment is the lower of:

(a) That portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk and was not recognized in accordance with its previous basis of accounting; and

(b) That portion of the cumulative change in the fair value of the hedging instrument that reflects the designated hedged risk and, in accordance with its previous basis of accounting, was either (i) not recognized or (ii) deferred in the statement of financial position as an asset or liability.

IG74. A first-time adopter may, in accordance with its previous basis of accounting, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognized in net assets/equity. Any net cumulative gain or loss that has been reclassified to net assets/equity on initial application of IPSAS 29 or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) remains in net assets/equity until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects surplus or deficit or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss is reclassified from net assets/equity to surplus or deficit. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge in accordance with IPSAS 29, hedge accounting is no longer appropriate starting from the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

IPSAS 31, Intangible Assets

IG75. A first-time adopter's opening statement of financial position excludes all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with IPSAS 31 at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) and includes all intangible assets that meet the recognition criteria in IPSAS 31 at that date.

IG76. The criteria in IPSAS 31 require an entity to recognize an intangible asset if, and only if:

(a) It is probable that the future economic benefits that are attributable to the asset will flow to the entity; and

(b) The cost of the asset can be measured reliably.

IPSAS 31 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

IG77. In accordance with paragraphs 63 and 66 of IPSAS 31, an entity capitalises the costs of internally generated intangible assets prospectively from the date when the recognition criteria are met. IPSAS 33 allows an entity to recognize previously expensed intangible assets to the extent that the item meets the definition of an intangible asset, and the recognition criteria in IPSAS 31. Thus, if an internally generated intangible asset qualifies for recognition at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible assets are recognized and/or measured in accordance with the IPSAS 31 (whichever is earlier) the first-time adopter recognizes and/or measures the asset in its opening statement of financial position even if it had recognized the related expenditure as an expense in accordance with its pervious basis of accounting.

IG78. If the asset does not qualify for recognition in accordance with IPSAS 31 until a later date, its cost is the sum of the expenditure incurred from that later date.

IG79. The criteria in paragraph IG76 also apply to intangible assets acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits or service potential. Furthermore, as explained in paragraph 33 of IPSAS 31, the cost of a separately acquired intangible asset can usually be measured reliably.

IG80. A first-time adopter may elect to use one of the following amounts as the deemed cost of intangible assets (except for internally generated intangible assets):

(a) Fair value 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 the date on which the exemptions expire (whichever is earlier) (paragraph 67 of IPSAS 33), in which case the entity gives 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.

IG81. If a first-time adopter's amortization 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 amortization pattern prospectively from when it makes that change in estimate (paragraphs 23 and 24 of IPSAS 33 and paragraph 103 of IPSAS 31). However, in some cases, the first-time adopter's amortization 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 first-time adopter adjusts accumulated amortization on in its opening statement of financial position retrospectively so that it complies with IPSASs.

IPSAS 35, Consolidated Financial Statements

IG82. If a first-time adopter did not consolidate a controlled entity in accordance with its previous basis of accounting, then, in its consolidated financial statements, the first-time adopter measures the controlled entity's assets and liabilities at the same carrying amounts as in the accrual basis financial statements of the controlled entity following its adoption of IPSASs, after adjusting for consolidation procedures and for the effects of the public sector combination in which it acquired the controlled entity (paragraph 130 of IPSAS 33). If the controlled entity has not adopted accrual basis IPSASs in its financial statements, the carrying amounts described in the previous sentence are those that IPSASs would require in those financial statements.

Controlling Entity Adopts Accrual Basis IPSASs Before the Controlled Entity

Background

IG83. Controlling entity A presents its (consolidated) first IPSAS financial statements in 20X5. Its controlled entity B, wholly owned by controlling entity A since formation, prepares information in accordance with accrual basis IPSASs for internal consolidation purposes from that date, but controlled entity B does not present its first IPSAS financial statements until 20X7.

Application of Requirements

IG84. If controlled entity B applies paragraph 129(a) of IPSAS 33, the carrying amounts of its assets and liabilities are the same in both its opening IPSAS statement of financial position at January 1, 20X6 and controlling entity's A consolidated statement of financial position (except for adjustments for consolidation procedures) and are based on controlled entity B's date of adoption of IPSASs.

IG85. Alternatively, controlled entity B, in accordance with paragraph 129(b) of IPSAS 33, measure all its assets or liabilities based on its own date of adoption of IPSASs (January 20X6). However, the fact that controlled entity B becomes a first-time adopter in 20X7 does not change the carrying amounts of its assets and liabilities in controlling entity A's consolidated financial statements.

Controlled Entity Adopts Accrual Basis IPSASs Before the Controlling Entity

Background

IG86. Controlling entity C presents its (consolidated) transitional IPSAS financial statements IPSASs in 20X7. Its controlled entity D, wholly owned by controlling entity C since formation, presented its transitional IPSAS financial statements in 20X5. Until 20X7, controlled entity D prepared information for internal consolidation purposes in accordance with controlling entity's C previous basis of accounting.

Application of Requirements

IG87. The carrying amounts of controlled entity D's assets and liabilities at January 1, 20X6 are the same in both controlling entity's C (consolidated) opening accrual basis statement of financial position and controlled entity D's financial statements (except for adjustments for consolidation procedures) and are based on controlled entity D's date of adoption of IPSASs. The fact that controlling entity C becomes a first-time adopter in 20X7 does not change those carrying amounts (paragraph 129 of IPSAS 33).

IG88. Paragraphs 129 and 130 of IPSAS 33 do not override the following requirements:

(a) The rest of IPSAS 33 in measuring all assets and liabilities for which paragraphs 129 and 130 of IPSAS 33 are not relevant.

(b) To give all disclosures required by this IPSAS as of the first-time adopter's own date of transition to IPSASs.

IG89. Paragraph 129 of IPSAS 33 applies if a controlled entity becomes a first-time adopter later than its controlling entity, for example if the controlling entity previously prepared a reporting package in accordance with accrual basis IPSASs for consolidation purposes but did not present a full set of financial statements in accordance with IPSASs. This may be relevant not only when a controlling entity reporting package complies fully with the recognition and measurement requirements of IPSASs, but also when it is adjusted centrally for matters such as review of events after the reporting date and central allocation of pension costs. However, paragraph 129 of IPSAS 33 does not permit a controlled entity to ignore misstatements that are immaterial to the consolidated financial statements of its controlling entity but material to its own financial statements.

Presentation and Disclosure

IG90. Paragraphs 135 to 140 in IPSAS 33 require a first-time adopter to disclose certain information when it has taken advantage of the transitional exemptions and provisions in its adoption of accrual basis IPSASs.

To illustrate:

Notes to the financial statements for the year ending December 31, 20X2

Note 48 – Adoption of transitional exemptions and provisions in IPSAS 33

Public Sector Entity X adopted accrual basis IPSAS on January 1, 20X1 and elected to adopt the transitional exemption in IPSAS 33 that allows it to apply a deemed cost and a period of up to three years in which to measure land and buildings and investment property.

Public Sector Entity X took advantage of these exemptions in determining a deemed cost, and to measure its land and buildings and investment property. As a result of adopting these transitional exemptions and provisions the entity is not able to make an explicit and unreserved statement about its compliance with accrual basis IPSASs, as the adoption of these transitional exemptions affect the fair presentation of Public Sector Entity X's financial statements and its ability to assert compliance with accrual basis IPSASs.

No other transitional exemptions that affect fair presentation and compliance with accrual basis IPSASs during the period of transition were adopted or applied to any other assets and/or liabilities.

During the period under review, Public Sector Entity X restated its opening balance of investment property with an additional value of CU 1 200 000 after determining the deemed cost on June 30, 20X2 for the investment property under its control.

As at year end, Public Sector Entity X has not yet determined a deemed cost for land and buildings and has not yet measured these assets in its financial statements. Land and buildings reflect a closing balance of CU 2 500 000 as at December 31, 20X2. This value was determined under Public Sector Entity X's previous basis of accounting.

Public Sector Entity X plans to apply a three year transitional exemption for measuring its land and buildings and in determining a deemed cost for these asset.

Public Sector Entity X has appointed an appraiser to value the land and has developed a model for the measurement of buildings. The progress in determining the valuations for land and buildings is in accordance with its implementation plan.

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 1, *Presentation of Financial Statements*						√ To extent that 3 year relief period was adopted		• Presenting comparative info encouraged
IPSAS 2, *Cash Flow Statements*	√							
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	√							
IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*								• Exemption to comply with requirements for cumulative translation
IPSAS 5, *Borrowing Costs*			√ When allowed alternative is elected as accounting policy					• Encouraged to apply benchmark treatment retrospectively • Allowed alternative must be applied retrospectively

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 6, *Consolidated and Separate Financial Statements* *(IPSAS 35 Consolidated Financial Statements)*		√			√ To appropriately classify and identify interests in other entities		√	• Provisions when controlling and/or controlled entity adopts IPSAS at different time • Exemption to not prepare financial statements as consolidated financial statements • *(Assess if investment entity on date of adoption and measure at fair value at that date)*
IPSAS 7, *Investments in Associates* *(IPSAS 36 Investments in Associates and Joint Ventures)*		√			√ To appropriately classify and identify interests in other entities		√	• Provisions when controlling entity and associate adopts IPSAS at different time • Exemption to not include investment in associate in consolidated financial statements

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 8, *Interests in Joint Venture* *(IPSAS 36 Investments in Associates and Joint Ventures)*		√			√ To appropriately classify and identify interests in other entities		√	• Provisions when controlling entity and associate and jointly controlled entities adopt IPSAS at different time • Exemption to not include interests in joint venture in consolidated financial statements
(IPSAS 37 Joint Arrangements)								• Provision on how to measure investment in joint venture previously accounted for using proportionate consolidation

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 9, *Revenue from Exchange Transactions*	√				√ To extent that 3 year relief period was adopted for assets and/or liabilities			
IPSAS 10, *Financial Reporting In Hyperinflationary Economies*								• Provisions around severe hyperinflation
IPSAS 11, *Construction Contracts*	√							
IPSAS 12, *Inventories*		√	√ Inventory not recognized under previous basis of accounting	√ Inventory recognized under previous basis of accounting				

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 13, *Leases*			√ Leased assets and/or liabilities not recognized under previous basis of accounting	√ Leased assets and/or liabilities recognized under previous basis of				

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 14, *Events After the Reporting Date*	√							
IPSAS, 16 *Investment Property*		√	√ Investment property not recognized under previous basis of accounting	√ Investment property recognized under previous basis of accounting				

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 17, *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				
IPSAS 18, *Segment Reporting*	√ No segment report to the extent that 3 year relief period was adopted							

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*			√ Only liabilities related to assets not recognized under previous basis of accounting to be included initial estimate of cost of dismantling/ removing item/ restoring site	√ Only liabilities related to assets recognized under previous basis of accounting to be included initial estimate of cost of dismantling/ removing item/ restoring site				

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 20, *Related Party Disclosures*						√		
IPSAS 21, *Impairment of Non-Cash-Generating Assets*								• Prospective application

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 22, *Disclosure of Information About the General Government Sector*	√							
IPSAS 23, *Revenue from Non-Exchange Transactions*			√ All non-exchange revenue not recognized under previous basis of accounting	√ All non-exchange revenue recognized under previous basis of accounting	√ To extent that 3 year relief period was adopted for assets and/or liabilities			

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 24, *Presentation of Budget Information in Financial Statements*	√							
IPSAS 39, *Employee Benefits*			√ defined benefit plans and other long-term employee benefits not recognized under previous basis of accounting	√ for defined benefit and other long-term employee benefits recognized under previous basis of accounting				• Provisions on how to determine initial liability • Provision to not separate cumulative actuarial gains and losses • Prospective disclosure on experience adjustments

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 26, *Impairment of Cash-Generating Assets*			√					• Prospective application
IPSAS 27, *Agriculture*			√ Biological and agricultural activities not recognized under previous basis of accounting	√ Biological and agricultural activities recognized under previous basis of accounting				

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 28, *Financial Instruments: Presentation*								• Provisions not to separate liability and net asset/ equity component under specific circumstances
IPSAS 29, *Financial Instruments: Recognition and Measurement*		√	√ For financial instruments not recognized under previous basis of accounting	√ For financial instruments recognized under previous basis of accounting				• Provisions around designation/ derecognition/ hedge accounting • Apply impairment principles prospectively

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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 30, *Financial Instruments: Disclosure*								• No comparative info about nature and extent of risks
IPSAS 31, *Intangible Assets*		√ Intangible assets other than internally generated I/A	√ Intangible assets not recognized under previous basis of accounting	√ Intangible assets recognized under previous basis of accounting				• Provision to recognise previously expensed internally generated intangible assets
IPSAS 32, *Service Concession Arrangements: Grantor*		√ Service concession asset	√ Service concession asset and related liability not recognized under previous basis of accounting	√ Service concession asset and related liability recognized under previous basis of accounting				• Provision on how to recognize related liability

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

This Appendix summarises how the transitional exemptions and provisions that a first-time adopter is required to apply in terms of this IPSAS, and those that a first-time adopter may elect to apply on adoption of accrual basis IPSASs.

As the transitional exemptions and provisions that may be elected can also affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs as explained in paragraphs 27 to 32 of IPSAS 33, the Appendix makes a distinction between those transitional exemptions and provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSASs, and those that do not.

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 1 • Present comparative information		√	
IPSAS 4 • Cumulative transitional differences at the date of adoption		√	

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
IPSAS 5			
• Allowed alternative treatment and has taken advantage of relief period			√
• Adopt allowed alternative treatment on date of adoption – retrospective application	√		
• Adopt bench mark treatment on the date of adoption – retrospective application of costs incurred before and after date of adoption		√	
	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 6 *(IPSAS 35)*			
• Relief to recognize and/or measure interests in controlled entity	√		√
• Elect to not eliminate inter-entity balances, transactions, revenue and expenses			
• Controlled entity becomes first-time adopter later or earlier than its controlling entity			

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
• Not present financial statements as consolidated financial statements if three year relief for recognition and/or measurement and/or elimination option was adopted			√
• *Assess if investment entity on date of adoption and determine fair value at that date)*	√		√
IPSAS 7 *(IPSAS 36)*			
• Relief to recognize and/or measure interest in associate			√
• Elect to not eliminate share in associate's surplus and deficit			√
• Associate becomes first-time adopter later or earlier than its controlling entity	√		
• Not present investment in associates in consolidated financial statements if three year relief for recognition and/or measurement and/or elimination option was adopted			√
	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

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
IPSAS 8 *(IPSAS 36)* • Relief to recognize and/or measure interest in joint venture • Elect to not eliminate balances and transactions with jointly controlled entities • Joint venture becomes first-time adopter later or earlier than its controlling entity • Not present interest in joint venture in consolidated financial statements if three year relief for recognition and/or measurement and/or elimination option was adopted	√		√ √ √
IPSAS 37 • *Measure investment in joint venture previously accounted for using proportionate consolidation*	√		
IPSAS 9 • Relief for recognition and/or measurement of revenue related to adoption of three year relief period for recognition and/or measurement of financial instruments			√

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
IPSAS 10 • Determine if hyperinflationary economy is subject to severe hyperinflation at the date of adoption	√		
• Measure assets and liabilities if date of adoption is on or after normalisation date	√		
	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 12 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
IPSAS 13 • No recognition and/or measurement of finance lease liability and finance lease asset if relief period for recognition and/or measurement of assets is adopted • Classification of lease based on circumstances at adoption of accrual basis IPSAS	√ (for Classification of lease)		√ (for No recognition and/or measurement)

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
IPSAS 16 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
IPSAS 17 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
	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 18 • No preparation of segment report within three years of adoption		√	

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
IPSAS 19 • No recognition and measurement of liability relating to initial estimate of costs of dismantling and removing item if relief for recognition and/or measurement of assets are adopted			√
IPSAS 20 • No disclosure of related party relationships, related party transactions and information about key management personnel			√
IPSAS 21 • Apply impairment provisions prospectively on date of adoption or when assets are recognised when relief period was applied	√		
	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

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
IPSAS 39 • Three year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities • Determine initial liability for defined benefit and other long-term employee benefit plans on date of adoption or when relief period expired	√ √		√
• Recognize increase/decrease on date of adoption or when relief period expires in opening accumulated surplus/deficit			

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
IPSAS 26 • Apply impairment provisions prospectively on date of adoption or when assets are recognised when relief period was applied	√		
IPSAS 27 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
	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 28 • Determine if financial instrument has liability and net asset/equity component on date of adoption • Do not separate compound financial instrument if no liability exists on date of adoption	√ √		

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
IPSAS 29			
• Three year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities			√
Designation			
• Designate financial asset or liability at fair value through surplus or deficit on date of adoption	√		
Impairment			
• Apply impairment provisions prospectively on date of adoption	√		
	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

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
IPSAS 29 *Derecognition* • Apply derecognition provisions prospectively on date of adoption • Apply derecognition provisions retrospectively if information is available as at the date of initial accounting	√	√	
Hedge accounting • Measure derivatives at fair value • Eliminate all deferred losses and gains • Only reflect hedges that qualify for hedge accounting on date of adoption • Discontinue hedge transaction if conditions of hedge accounting on date of adoption are not met	√ √ √ √		
IPSAS 30 • No disclosure of information about nature and extent of risks		√	

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 31 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets • Recognize all internally generated intangible assets	√		√
IPSAS 32 • Three year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities • Measure liability either under financial liability model or grant of a right to the operator model on date of adoption or when asset is recognised if relief period is adopted	√		√

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
Applying deemed cost to assets and/or liabilities		√	
Applying deemed cost to assets acquired in a non-exchange transaction		√	
Using deemed cost for investments in controlled entities, jointly controlled entities and associates		√	
Preparing reconciliations during transitional period	√		

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IPSAS 34—SEPARATE FINANCIAL STATEMENTS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS) 27, *Separate Financial Statements* published by the International Accounting Standards Board (IASB). Extracts from IAS 27 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

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IPSAS 34—SEPARATE FINANCIAL STATEMENTS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 34, *Separate Financial Statements* was issued in January 2015.

Since then, IPSAS 34 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in IPSAS 34

Paragraph Affected	How Affected	Affected By
4	Deleted	The Applicability of IPSASs April 2016
5	Deleted	The Applicability of IPSASs April 2016
32A	New	The Applicability of IPSASs April 2016

January 2015

IPSAS 34—SEPARATE FINANCIAL STATEMENTS

CONTENTS

International Public Sector Accounting Standard 34, *Separate Financial Statements*, is set out in paragraphs 1–34. All the paragraphs have equal authority. IPSAS 34 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.**

3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards (IPSASs).

4. [Deleted]

5. [Deleted]

Definitions

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

   <u>Consolidated financial statements</u> are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

   <u>Separate financial statements</u> are those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures*.

   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 following terms are defined in IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures* or IPSAS 37, *Joint Arrangements*: associate, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor

that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by IPSAS 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 9–10.

8. The financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.

9. An entity that is exempted in accordance with paragraph 5 of IPSAS 35, from consolidation or paragraph 23 of IPSAS 36, from applying the equity method may present separate financial statements as its only financial statements.

10. An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 56 of IPSAS 35, presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11. **Separate financial statements shall be prepared in accordance with all applicable IPSASs, except as provided in paragraph 12.**

12. **When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either:**

    (a) **At cost;**

    (b) **In accordance with IPSAS 29; or**

    (c) **Using the equity method as described in IPSAS 36.**

13. **If an entity elects, in accordance with paragraph 24 of IPSAS 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for those investments in the same way in its separate financial statements.**

14. **If a controlling entity is required, in accordance with paragraph 56 of IPSAS 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for that investment in the same way in its separate financial statements. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and consolidate the**

other assets and liabilities and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements.

15. **When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:**

    (a) **When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.**

    (b) **When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognized as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognized directly in net assets/equity in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.**

16. **Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognized in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognized in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognized as a reduction from the carrying amount of the investment.**

17. **When a controlling entity reorganizes the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:**

    (a) **The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;**

(b) **The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganization; and**

(c) **The owners of the original controlling entity before the reorganization have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganization;**

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 12(a) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganization.

18. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 17. The requirements in paragraph 17 apply equally to such reorganizations. In such cases, references to “original controlling entity” and “original economic entity” are to the “original entity”.

Disclosure

19. **An entity shall apply all applicable IPSASs when providing disclosures in its separate financial statements, including the requirements in paragraphs 20–23.**

20. **When a controlling entity, in accordance with paragraph 5 of IPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**

(a) **The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with IPSASs have been produced for public use; and the address where those consolidated financial statements are obtainable.**

(b) **A list of significant investments in controlled entities, joint ventures and associates, including:**

(i) **The name of those controlled entities, joint ventures and associates.**

(ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).**

(iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

(c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

21. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by IPSAS 38, *Disclosure of Interests in Other Entities*.**

22. **If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall disclose that fact. The entity shall also present the disclosures relating to investment entities required by IPSAS 38, *Disclosure of Interests in Other Entities*.**

23. **When a controlling entity (other than a controlling entity covered by paragraphs 20–21) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor shall identify the financial statements prepared in accordance with IPSAS 35, IPSAS 36 or IPSAS 37, to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:**

(a) **The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority.**

(b) **A list of significant controlled entities, joint ventures and associates, including:**

(i) **The name of those controlled entities, joint ventures and associates.**

(ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity).**

(iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

(c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

Transitional Provisions

24. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit at the beginning of the immediately preceding period for any difference between:**

    (a) **The previous carrying amount of the investment; and**

    (b) **The fair value of the investor's investment in the controlled entity.**

25. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value directly to net assets/equity shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognized in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.**

26. **At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with IPSAS 29, as permitted in paragraph 12.**

27. **An investment entity shall use the fair value amounts previously reported to investors or to management.**

28. **If measuring the investment in the controlled entity in accordance with paragraphs 24–27 is impracticable (as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs 24–27 is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the controlled entity is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/equity**

at the beginning of the immediately preceding period for any difference between:

(a) **The previous carrying amount of the investment; and**

(b) **The fair value of the investor's investment in the controlled entity.**

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.

29. **If an investment entity has disposed of, or lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that investment.**

30. **At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph 56 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, shall use the transitional provisions in paragraphs 24–29 in accounting for its investment in the controlled investment entity in its separate financial statements.**

31. The transitional provisions for changes in the accounting, in an entity's separate financial statements, for its interest in a joint operation are set out in IPSAS 37, *Joint Arrangements.*

Effective Date

32. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 35, IPSAS 36, IPSAS 37, and IPSAS 38 at the same time.**

32A. **Paragraphs 4 and 5 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

33. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Withdrawal and Replacement of IPSAS 6 (December 2006)

34. This Standard is issued concurrently with IPSAS 35. Together, the two Standards supersede IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006). IPSAS 6 remains applicable until IPSAS 34 and IPSAS 35 are applied or become effective, whichever is earlier.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 34.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 34. As this Standard is based on IAS 27, *Separate Financial Statements* (Amended in 2011, including amendments up to December 31, 2014), issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where IPSAS 34 departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 48, *Separate Financial Statements,* was based on IAS 27 *Separate Financial Statements* (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 6, *Consolidated and Separate Financial Statements.* In January 2015 the IPSASB issued five new IPSASs, including IPSAS 34. These new IPSASs supersede IPSAS 6, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures.*

Use of the Equity Method in Separate Statements

BC3. IPSAS 6 permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:

(a) Using the equity method;

(b) At cost; or

(c) As a financial instrument in accordance with IPSAS 29.

BC4. The IPSASB noted that in 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the option to use the equity method. The IPSASB noted that the reasons given by the IASB for making this change included the following:

(a) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and

(b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.

BC5. The IPSASB also noted that, at the time it issued ED 48, the IASB had signaled its intention to reconsider the use of the equity method in separate financial statements. In deciding to reconsider this issue the IASB acknowledged that corporate law in some countries requires that the equity method of accounting be used to measure certain investments when presenting separate financial statements.

BC6. The IPSASB decided to continue to permit the use of the equity method in separate financial statements for the following reasons:

(a) The equity method is a well-established method of accounting for certain investments in the public sector. In many circumstances where investments are held by public sector entities, the equity method can provide information that is reliable[1] and useful, and possibly at a lower cost than either the cost method or the fair value method. In the public sector, investment entities are often used more as "instruments" to enable service provision, rather than as a holding for investment purposes, as might generally be the case in the private sector. The equity method may therefore, in some circumstances, be better suited to meeting user needs in the public sector, as it allows the financial statements to portray the fluctuations in the equity of, and performance by, an investment over time, in a cost effective and easily understood manner.

(b) Although application of the cost method is often relatively straightforward, where investments have been held for some time, using the cost method may result in outdated and less relevant information, in which case, it would not meet user needs.

(c) In the public sector there is likely to be a higher proportion of investments for which there are no active markets and in respect of which fair values are not readily observable. Although the guidance in IPSAS 29 can be used to derive a value for such investments, the IPSASB considered that this approach would generally result in information that did not faithfully represent the underlying circumstances.

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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 discusses the transitional approach to the explanation of reliability.

BC7. A majority of the respondents to ED 48 supported the proposal to permit the use of the equity method in separate financial statements. A further group of respondents also supported this proposal, subject to the IASB reinstating the use of the equity method in separate financial statements. In August 2014 the IASB issued the *Equity Method in Separate Financial Statements (Amendments to IAS 27)*, which reinstated the equity method as an option in separate financial statements. The IPSASB noted the support it had received for this proposal and the reinstatement of the equity method in IAS 27, and agreed to continue to permit the use of the equity method in separate financial statements.

Separate Financial Statements of Investment Entities

BC8. In developing IPSAS 35 the IPSASB decided to introduce the concept of investment entities and to require that a controlling entity that is an investment entity measure its investments in most controlled entities at fair value through surplus or deficit in accordance with IPSAS 29. Consequently, the IPSASB decided to require that an investment entity measure its investments in controlled entities at fair value through surplus or deficit in its separate financial statements. The IPSASB also decided that an investment entity preparing separate financial statements as its only financial statements, should also make the disclosures required in IPSAS 38 about its interests in controlled entities.

BC9. The IPSASB also decided to require a controlling entity of an investment entity that is not itself an investment entity to present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity. Consequently, the IPSASB decided to require that a non-investment controlling entity should measure its investment in a controlled investment entity in the same way in its separate financial statements.

Revision of IPSAS 34 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC10. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Comparison with IAS 27 (Amended in 2011)

IPSAS 34, *Separate Financial Statements*, is drawn primarily from IAS 27, *Separate Financial Statements* (Amended in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments.* References to IFRS 9 in the underlying IASB standard have therefore been replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 34 and IAS 27 (Amended in 2011) are as follows:

- IPSAS 34 uses different terminology, in certain instances, from IAS 27 (Amended in 2011). The most significant examples are the use of the terms "net assets/equity," "economic entity," "controlling entity," "controlled entity", "revenue". The equivalent terms in IAS 27 (Amended in 2011) are "equity," "group," "parent," "subsidiary" and "income."
- IPSAS 34 contains specific requirements for a controlling entity that is not itself an investment entity but which has an investment in a controlled investment entity. IAS 27 (Amended in 2011) does not specify different requirements for such controlling entities because it requires that such investments be consolidated.

IPSAS 35—CONSOLIDATED FINANCIAL STATEMENTS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS) 10, *Consolidated Financial Statements* published by the International Accounting Standards Board (IASB). Extracts from IFRS 10 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

The approved text of the International Financial Reporting Standards (IFRSs) is that published by the IASB in the English language, and copies may be obtained directly from IFRS Publications Department, First Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom.

E-mail: publications@ifrs.org

Internet: www.ifrs.org

IPSAS 35—CONSOLIDATED FINANCIAL STATEMENTS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 35, *Consolidated Financial Statements* was issued in January 2015.

Since then, IPSAS 35 has been amended by the following IPSASs:

- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in IPSAS 35

Paragraph Affected	How Affected	Affected By
4	Amended	IPSAS 40 January 2017
6	Amended	IPSAS 39 July 2016
8	Amended	The Applicability of IPSASs April 2016
11	Deleted	The Applicability of IPSASs April 2016
12	Deleted	The Applicability of IPSASs April 2016
13	Deleted	The Applicability of IPSASs April 2016
40	Amended	IPSAS 40 January 2017
52	Amended	IPSAS 40 January 2017
55A	New	IPSAS 40 January 2017
56	Amended	IPSAS 40 January 2017
57	Amended	IPSAS 40 January 2017
63	Amended	IPSAS 40 January 2017

Paragraph Affected	**How Affected**	**Affected By**
79A	New	The Applicability of IPSASs April 2016
79B	New	IPSAS 39 July 2016
79C	New	IPSAS 40 January 2017
79D	New	IPSAS 40 January 2017

IPSAS 35—CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

International Public Sector Accounting Standard 35, *Consolidated Financial Statements*, is set out in paragraphs 1–81. All the paragraphs have equal authority. IPSAS 35 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;

   (b) Defines the principle of control, and establishes control as the basis for consolidation;

   (c) Sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;

   (d) Sets out the accounting requirements for the preparation of consolidated financial statements; and

   (e) Defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

Scope

3. **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 the economic entity.**

Public Sector Combinations

4. This Standard does not deal with the accounting requirements for public sector combinations and their effect on consolidation, including goodwill arising on a public sector combination (see IPSAS 40, *Public Sector Combinations*).

Presentation of Consolidated Financial Statements

5. **An entity that is a controlling entity shall present consolidated financial statements. This Standard applies to all entities, except that a controlling entity need not present consolidated financial statements if it meets all the following conditions:**

   (a) **It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;**

(b) **Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**

(c) **It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and**

(d) **Its ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with International Public Sector Accounting Standards (IPSASs), in which controlled entities are consolidated or are measured at fair value through surplus or deficit in accordance with this Standard.**

6. This Standard does not apply to post-employment benefit plans or other long-term employee benefit plans to which IPSAS 39, *Employee Benefits* applies.

7. **A controlling entity that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 56 of this Standard, to measure all of its controlled entities at fair value through surplus or deficit.**

8. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of commercial public sector entities with entities in the budget sector. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, the disclosures required by IPSAS 18, *Segment Reporting*, help to explain the significance of different activities within the economic entity.

9. The exemption from preparing consolidated financial statements in paragraph 5 does not apply where the information needs of a controlled entity's users would not be met by the consolidated financial statements of its controlling entity. For example, consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions there are legislated financial reporting requirements intended to address the information needs of such users.

10. An entity may be required, (for example, by legislation, or by external users) to prepare aggregated financial statements which are for a different economic entity than that required by this Standard. Although such financial statements fall outside the scope of this Standard and would not comply with the requirements in this Standard, an entity could use the guidance in this Standard in the preparation of such aggregated financial statements.

Government Business Enterprises

11. [Deleted]

12. [Deleted]

13. [Deleted]

Definitions

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

Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

A controlled entity is an entity that is controlled by another entity.

A controlling entity is an entity that controls one or more entities.

A decision-maker is an entity with decision-making rights that is either a principal or an agent for other parties.

An economic entity is a controlling entity and its controlled entities.

An investment entity is an entity that:

(a) **Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;**

(b) **Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and**

(c) **Measures and evaluates the performance of substantially all of its investments on a fair value basis.**

A <u>non-controlling interest</u> is the net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.

<u>Power</u> consists of existing rights that give the current ability to direct the relevant activities of another entity.

<u>Protective rights</u> are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

<u>Relevant activities:</u> For the purpose of this Standard, relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

<u>Removal rights</u> are rights to deprive the decision maker of its decision-making authority.

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 following terms are defined in either IPSAS 36, *Investments in Associates and Joint Ventures,* IPSAS 37, *Joint Arrangements,* or IPSAS 38, *Disclosure of Interests in Other Entities*: associate, interest in another entity, joint venture and significant influence.

Binding Arrangement

15. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between the parties.

Economic Entity

16. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. An economic entity may include entities with both social policy and commercial objectives.

17. The determination of the economic entity will need to be made having regard to the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements.

Such consolidated financial statements are commonly referred to as whole-of-government financial statements.

Control (see paragraphs AG2–AG87)

18. **An entity, regardless of the nature of its involvement with another entity, shall determine whether it is a controlling entity by assessing whether it controls the other entity.**

19. **An entity controls another entity when it is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.**

20. **Thus, an entity controls another entity if and only if the entity has all the following:**

    (a) **Power over the other entity (see paragraphs 23–29);**

    (b) **Exposure, or rights, to variable benefits from its involvement with the other entity (see paragraphs 30–34); and**

    (c) **The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs 35–37)**.

21. **An entity shall consider all facts and circumstances when assessing whether it controls another entity. The entity shall reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20 (see paragraphs AG82–AG87).**

22. Two or more entities collectively control another entity when they must act together to direct the relevant activities. In such cases, because no single entity can direct the activities without the co-operation of the others, no single entity controls the other entity. Each entity would account for its interest in the other entity in accordance with the relevant IPSASs, such as IPSAS 36, IPSAS 37,or the IPSASs dealing with financial instruments (IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*).

Power

23. An entity has power over another entity when the entity has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity. The right to direct the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity and is frequently the way in which power is demonstrated in the public sector.

24. Power arises from rights. In some cases assessing power is straightforward, such as when power over another entity is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. However, public sector entities often obtain power over another entity from rights other than voting rights. They may also obtain power over another entity without having an equity instrument providing evidence of a financial investment. An entity may have rights conferred by binding arrangements. These rights may give an entity power to require the other entity to deploy assets or incur liabilities in a way that affects the nature or amount of benefits received by the first-mentioned entity. The assessment of whether such rights give rise to power over another entity may be complex and require more than one factor to be considered.

25. An entity can have power over another entity even if it does not have responsibility for the day-to-day operation of the other entity or the manner in which prescribed functions are performed by that other entity. Legislation may give statutory bodies or statutory officers powers to carry out their functions independently of government. For example, the Auditor-General and Government Statistician usually have statutory powers to obtain information and publish reports without recourse to government and the judiciary often has special powers to give effect to the concept of judicial independence. Legislation may also set out the broad parameters within which the statutory body is required to operate, and result in the statutory body operating in a manner consistent with the objectives set by Parliament or a similar body. The existence of statutory powers to operate independently does not, of itself, preclude an entity having the ability to direct the operating and financial policies of another entity with statutory powers so as to obtain benefits. For example, the independence of a central bank in relation to monetary policy does not preclude the possibility of the central bank being controlled. All facts and circumstances would still need to be considered.

26. The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:

    (a) Regulatory control (see paragraph AG12); or

    (b) Economic dependence (see paragraphs AG41–AG42).

27. An entity with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the entity has been directing the relevant activities of the entity being assessed for control can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over the entity being assessed for control. In the case of an entity established with

predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established.

28. If two or more entities each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the nature or amount of benefits from that entity has power over that other entity.

29. An entity can have power over an entity being assessed for control even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has significant influence. However, an entity that holds only protective rights does not have power over another entity (see paragraphs AG29–AG31), and consequently does not control the other entity.

Benefits

30. An entity is exposed, or has rights, to variable benefits from its involvement with an entity being assessed for control when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance. Entities become involved with other entities with the expectation of positive financial or non-financial benefits over time. However, in a particular reporting period, the actual impact of an entity's involvement with the entity being assessed for control can be only positive, only negative or a mix of both positive and negative.

31. The entity's benefits from its involvement with the entity being assessed for control can be only financial, only non-financial or both financial and non-financial. Financial benefits include returns on investment such as dividends or similar distributions and are sometimes referred to as "returns". Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Non-financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. For example, an entity may obtain benefits when another entity with congruent activities provides services that the first entity would have otherwise been obliged to provide. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).

32. The following examples illustrate financial benefits that an entity may receive from its involvement with another entity:

(a) Dividends, variable interest on debt securities, other distributions of economic benefits;

(b) Exposure to increases or decreases in the value of an investment in another entity;

(c) Exposure to loss from agreements to provide financial support, including financial support for major projects;

(d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);

(e) Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and

(f) Other exposures to variable benefits that are not available to other entities.

33. Examples of non-financial benefits include:

(a) The ability to benefit from the specialized knowledge of another entity;

(b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;

(c) Improved outcomes;

(d) More efficient delivery of outcomes;

(e) More efficient or effective production and delivery of goods and services;

(f) Having an asset and related services available earlier than otherwise would be the case; and

(g) Having a higher level of service quality than would otherwise be the case.

34. Although only one entity can control another entity, more than one party can share in the benefits of that other entity. For example, holders of non-controlling interests can share in the financial benefits such as surpluses or distributions from an entity or the non-financial benefits such as congruence of activities with desired outcomes.

Link between Power and Benefits

35. An entity controls another entity if the entity not only has power over the entity being assessed for control and exposure or rights to variable benefits from its involvement with the other entity, but also has the ability to use its power to affect the nature or amount of the benefits from its involvement with the entity being assessed for control.

36. The existence of congruent objectives alone is insufficient for an entity to conclude that it controls another entity. In order to have control the entity would also need to have the ability to use its power over the entity being assessed for control to direct that other entity to work with it to further its objectives.

37. **An entity with decision-making rights shall determine whether it is a principal or an agent. An entity shall also determine whether another entity with decision-making rights is acting as an agent for the entity. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the other entity when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal.**

Accounting Requirements

38. **A controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.**

39. **Consolidation of a controlled entity shall begin from the date the entity obtains control of the other entity and cease when the entity loses control of the other entity.**

Consolidation Procedures

40. Consolidated financial statements:

    (a) Combine like items of assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity with those of its controlled entities.

    (b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity (IPSAS 40 explains how to account for any related goodwill).

    (c) Eliminate in full intra-economic entity assets, liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full). Intra-economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements.

Uniform Accounting Policies

41. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions

and events in similar circumstances, appropriate adjustments are made to that member's financial statements in preparing the consolidated financial statements to ensure conformity with the economic entity's accounting policies.

Measurement

42. An entity includes the revenue and expenses of a controlled entity in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the controlled entity. Revenue and expenses of the controlled entity are based on the amounts of the assets and liabilities recognized in the consolidated financial statements at the acquisition date. For example, depreciation expense recognized in the consolidated statement of financial performance after the acquisition date is based on the values of the related depreciable assets recognized in the consolidated financial statements at the acquisition date.

Potential Voting Rights

43. When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of surplus or deficit and changes in net assets/equity allocated to the controlling entity and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives, unless paragraph 44 applies.

44. In some circumstances an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the benefits associated with an ownership interest. In such circumstances, the proportion allocated to the controlling entity and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the benefits.

45. IPSAS 28 and IPSAS 29 do not apply to interests in controlled entities that are consolidated. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in a controlled entity, the instruments are not subject to the requirements of IPSAS 28 and IPSAS 29. In all other cases, instruments containing potential voting rights in a controlled entity are accounted for in accordance with IPSAS 28 and IPSAS 29.

Reporting Dates

46. **The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as at the same reporting date. When the end of the**

reporting period of the controlling entity is different from that of a controlled entity, the controlling entity either:

(a) **Obtains, for consolidation purposes, additional financial information as of the same date as the financial statements of the controlling entity; or**

(b) **Uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.**

Non-Controlling Interests

47. **A controlling entity shall present non-controlling interests in the consolidated statement of financial position within net assets/equity, separately from the net assets/equity of the owners of the controlling entity.**

48. Changes in a controlling entity's interest in a controlled entity that do not result in the controlling entity losing control of the controlled entity are transactions with owners in their capacity as owners.

49. **An entity shall attribute the surplus or deficit and each gain or loss recognized directly in net assets/equity to the owners of the controlling entity and to the non-controlling interests. The entity shall also attribute the total amount recognized in the statement of changes in net assets/equity to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.**

50. **If a controlled entity has outstanding cumulative preference shares that are classified as equity instruments and are held by non-controlling interests, the entity shall compute its share of surplus or deficit after adjusting for the dividends on such shares, whether or not such dividends have been declared.**

Changes in the Proportion held by Non-Controlling Interests

51. **When the proportion of the net assets/equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the controlled entity. The entity shall recognize directly in net assets/equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the controlling entity.**

Loss of Control

52. **If a controlling entity loses control of a controlled entity, the controlling entity:**

    (a) **Derecognizes the assets and liabilities of the former controlled entity from the consolidated statement of financial position;**

    (b) **Recognizes any investment retained in the former controlled entity when control is lost and subsequently accounts for it and for any amounts owed by or to the former controlled entity in accordance with relevant IPSASs. That retained interest is remeasured, as described in paragraphs 54(b)(iii) and 55A. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IPSAS 29 or the cost on initial recognition of an investment in an associate or joint venture, if applicable; and**

    (c) **Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs 54–55A.**

53. **A controlling entity might lose control of a controlled entity in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a controlling entity shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the controlling entity should account for the multiple arrangements as a single transaction:**

    (a) **They are entered into at the same time or in contemplation of each other.**

    (b) **They form a single transaction designed to achieve an overall commercial effect.**

    (c) **The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.**

    (d) **One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of an investment is priced below market and is compensated for by a subsequent disposal priced above market.**

54. **If a controlling entity loses control of a controlled entity, it shall:**

    (a) **Derecognize:**

(i) **The assets (including any goodwill) and liabilities of the controlled entity at their carrying amounts at the date when control is lost; and**

(ii) **The carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost (including any gain or loss recognized directly in net assets/equity attributable to them).**

(b) **Recognize:**

(i) **The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;**

(ii) **If the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the controlled entity to owners in their capacity as owners, that distribution; and**

(iii) **Any investment retained in the former controlled entity at its fair value at the date when control is lost.**

(c) **Transfer directly to accumulated surplus/deficit, if required by other IPSASs, the amounts recognized directly in net assets/equity in relation to the controlled entity on the basis described in paragraph 55.**

(d) **Recognize any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity.**

55. **If a controlling entity loses control of a controlled entity, the controlling entity shall account for all amounts previously recognized directly in net assets/equity in relation to that controlled entity on the same basis as would be required if the controlling entity had directly disposed of the related assets or liabilities. If a revaluation surplus previously recognized directly in net assets/equity would be transferred directly to accumulated surplus/deficit on the disposal of the asset, the controlling entity shall transfer the revaluation surplus directly to accumulated surplus/deficit when it loses control of the controlled entity.**

55A. **If a controlling entity loses control of a controlled entity that does not contain an operation, as defined in IPSAS 40, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the controlling entity determines the gain or loss in accordance with paragraphs 54–55. The gain or loss resulting from the transaction is recognized in the controlling entity's surplus or deficit only to the extent of the unrelated investors' interests in that associate or joint venture. The remaining part of the gain is eliminated against**

the carrying amount of the investment in that associate or joint venture. In addition, if the controlling entity retains an investment in the former controlled entity and the former controlled entity is now an associate or a joint venture that is accounted for using the equity method, the controlling entity recognizes the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former controlled entity in its surplus or deficit only to the extent of the unrelated investors' interests in the new associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former controlled entity. If the controlling entity retains an investment in the former controlled entity that is now accounted for in accordance with IPSAS 29, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in the former controlled entity is recognized in full in the controlling entity's surplus or deficit.

Investment Entities: Fair Value Requirement

56. **Except as described in paragraph 57, an investment entity shall not consolidate its controlled entities or apply IPSAS 40 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29.**

57. **Notwithstanding the requirement in paragraph 56, if an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs AG98–AG100), it shall consolidate that controlled entity in accordance with paragraphs 38–55 of this Standard and apply the requirements of IPSAS 40 to the acquisition of any such controlled entity.**

58. **A controlling entity of an investment entity that is not itself an investment entity shall present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with paragraphs 38–55 of this Standard.**

Determining Whether an Entity is an Investment Entity

59. **An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs AG89–AG106 describe aspects of the definition of an investment entity in more detail. If facts and circumstances indicate that there are changes to one or more of the three elements that make up**

the definition of an investment entity, a controlling entity shall reassess whether it is an investment entity.

60. **A controlling entity that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs 63–64).**

Judgments and Assumptions

61. **An investment entity shall disclose the information required by paragraph 15 of IPSAS 38 about significant judgments and assumptions made in determining that it is an investment entity unless it has all of the following characteristics:**

    (a) **It has obtained funds from more than one investor (see paragraphs AG89–AG90);**

    (b) **It has ownership interests in the form of equity or similar interests (see paragraphs AG91–AG92); and**

    (c) **It has more than one investment (see paragraphs AG96–AG97).**

62. The absence of any of these characteristics does not necessarily disqualify an entity from being classified as an investment entity. However, the absence of any of these characteristics means that an entity is required to disclose information about the significant judgments and assumptions made in determining that it is an investment entity.

Accounting for a Change in Investment Entity Status

63. **When an entity ceases to be an investment entity, it shall apply IPSAS 40 to any controlled entity that was previously measured at fair value through surplus or deficit in accordance with paragraph 56. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All controlled entities shall be consolidated in accordance with paragraphs 38–51 of this Standard from the date of change of status.**

64. **When an entity becomes an investment entity, it shall cease to consolidate its controlled entities at the date of the change in status, except for any controlled entity that shall continue to be consolidated in accordance with paragraph 57. The investment entity shall apply the requirements of paragraphs 52 and 53 to those controlled entities that it ceases to consolidate as though the investment entity had lost control of those controlled entities at that date.**

Transitional Provisions

65. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 66–78.**

66. **Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this Standard is first applied an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the date of initial application of this Standard (the "immediately preceding period"). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.**

67. For the purposes of this Standard, the date of initial application is the beginning of the annual reporting period for which this Standard is applied for the first time.

68. At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

    (a) Entities that would be consolidated at that date in accordance with IPSAS 6, *Consolidated and Separate Financial Statements*, and are still consolidated in accordance with this Standard; or

    (b) Entities that would not be consolidated at that date in accordance with IPSAS 6, and are not consolidated in accordance with this Standard.

69. **At the date of initial application, an entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it shall apply the requirements of paragraphs 70–73 instead of paragraphs 77–78.**

70. **Except for any controlled entity that is consolidated in accordance with paragraph 57 (to which paragraph 68 or paragraphs 77–78, whichever is relevant, apply), an investment entity shall measure its investment in each controlled entity at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and net assets/equity at the beginning of the immediately preceding period for any difference between:**

    (a) **The previous carrying amount of the controlled entity; and**

    (b) **The fair value of the investment entity's investment in the controlled entity.**

The cumulative amount of any fair value adjustments previously recognized directly in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.

71. **An investment entity shall use the fair value amounts that were previously reported to investors or to management.**

72. **If measuring an investment in a controlled entity in accordance with paragraph 70 is impracticable (as defined in IPSAS 3), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph 70 is practicable, which may be the current period. The investor shall retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to net assets/equity shall be recognized at the beginning of the current period.**

73. If an investment entity has disposed of, or has lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that controlled entity.

74. **If, at the date of initial application, an entity concludes that it shall consolidate another entity that was not consolidated in accordance with IPSAS 6, the entity shall measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that other entity had been consolidated from the date when the entity obtained control of that other entity on the basis of the requirements of this Standard. The entity shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:**

    (a) **The amount of assets, liabilities and non-controlling interests recognized; and**

    (b) **The previous carrying amount of the entity's involvement with the other entity.**

75. **If measuring a controlled entity's assets, liabilities and non-controlling interests in accordance with paragraph 74(a) or (b) is impracticable (as defined in IPSAS 3), an entity shall measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that entity had been consolidated from the deemed acquisition date.**

The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.

76. **The entity shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the deemed acquisition date is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:**

(a) **The amount of assets, liabilities and non-controlling interests recognized; and**

(b) **The previous carrying amounts of the entity's involvement with the other entity.**

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.

77. **If, at the date of initial application, an entity concludes that it will no longer consolidate an entity that was consolidated in accordance with IPSAS 6, the entity shall measure its interest in the other entity at the amount at which it would have been measured if the requirements of this Standard had been effective when the entity became involved with, or lost control of, the other entity. The entity shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that the entity became involved with (but did not obtain control in accordance with this Standard), or lost control of, the other entity is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:**

(a) **The previous carrying amount of the assets, liabilities and non-controlling interests; and**

(b) **The recognized amount of the entity's interest in the other entity.**

78. **If measuring the interest in the other entity in accordance with paragraph 77 is impracticable (as defined in IPSAS 3), an entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph 77 is practicable, which may be the current period. The entity shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that the entity became involved with (but did not obtain control in accordance**

with this Standard), or lost control of, the other entity is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

(a) **The previous carrying amount of the assets, liabilities and non-controlling interests; and**

(b) **The recognized amount of the entity's interest in the other entity.**

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.

Effective Date

79. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, *Separate Financial Statements,* IPSAS 36, IPSAS 37, and IPSAS 38 at the same time.**

79A. **Paragraphs 11, 12 and 13 were deleted and paragraph 8 was amended by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

79B. **Paragraph 6 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

79C. **Paragraphs 4, 40, 56, 57 and 63 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

79D. **Paragraph 52 was amended and paragraph 55A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the**

amendments earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.

80. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Withdrawal and Replacement of IPSAS 6 (December 2006)

81. This Standard is issued concurrently with IPSAS 34. Together, the two Standards supersede IPSAS 6 (December 2006). IPSAS 6 remains applicable until IPSAS 34 and IPSAS 35 are applied or become effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 35.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 35, *Consolidated Financial Statements*.

Assessing Control

AG2. To determine whether it controls another entity an entity shall assess whether it has all the following:

(a) Power over the other entity;

(b) Exposure, or rights, to variable benefits from its involvement with the other entity; and

(c) The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity.

AG3. Consideration of the following factors may assist in making that determination:

(a) The purpose and design of the other entity (see paragraphs AG5–AG8);

(b) What the relevant activities are and how decisions about those activities are made (see paragraphs AG13–AG15);

(c) Whether the rights of the entity give it the current ability to direct the relevant activities of the other entity (see paragraphs AG16–AG56);

(d) Whether the entity is exposed, or has rights, to variable benefits from its involvement with the other entity (see paragraph AG57–AG58); and

(e) Whether the entity has the ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs AG60–AG74).

AG4. When assessing whether it controls another entity, an entity shall consider the nature of its relationship with other parties (see paragraphs AG75–AG77).

Purpose and Design of another Entity

AG5. An entity shall consider the purpose and design of the entity being assessed for control in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who benefits from those activities.

AG6. When the purpose and design of the entity being assessed for control are considered, it may be clear that the entity being assessed for control is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the operating and financing policies of the entity being assessed for control (see paragraphs AG32–AG52). In the most straightforward case, the entity that holds a majority of those voting rights, in the absence of any other factors, controls the other entity.

AG7. To determine whether an entity controls another entity in more complex cases, it may be necessary to consider some or all of the other factors in paragraph AG3.

AG8. Voting rights may not be the dominant factor in deciding who controls the entity being assessed for control. If there are voting rights they may be limited in scope. The relevant activities of the entity being assessed for control may be directed by means of binding arrangements or provisions in founding documents such as articles of association or a constitution. In such cases, an entity's consideration of the purpose and design of the entity being assessed for control shall also include consideration of the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and whether the entity is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

Power

AG9. To have power over another entity, an entity must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered (see paragraphs AG25–AG31).

AG10. The determination about whether an entity has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights of the entity and other entities in relation to the potentially controlled entity.

AG11. An entity normally will have power over an entity that it has established when the constituting document or enabling legislation specifies the operating and financing activities that are to be carried out by that entity.

However, the impact of the constituting document or legislation is evaluated in the light of other prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an entity has power over another entity. For example, a government may not have power over a research and development corporation that operates under a mandate created, and limited, by legislation if that or other legislation assigns power to direct the relevant activities to other entities that are not controlled by the government.

Regulatory Control

AG12. Regulatory control does not usually give rise to power over an entity for the purposes of this Standard. Governments and other public sector bodies, including supranational bodies, may have wide ranging powers to establish the regulatory framework within which entities operate, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, governments and other public sector bodies may enact regulations to protect the health and safety of the community, restrict the sale or use of dangerous goods or specify the pricing policies of monopolies. However, when regulation is so tight as to effectively dictate how the entity performs its business, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity.

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Using assets and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue through non-exchange transactions;

(d) Selling and purchasing of goods or services;

(e) Managing physical assets;

(f) Managing financial assets during their life (including upon default);

(g) Selecting, acquiring or disposing of assets;

(h) Managing a portfolio of liabilities;

(i) Researching and developing new products or processes; and

(j) Determining a funding structure or obtaining funding.

AG14. Examples of decisions about relevant activities include but are not limited to:

(a) Establishing operating and capital decisions of an entity, including budgets; and

(b) Appointing and remunerating an entity's key management personnel or service providers and terminating their services or employment.

AG15. In some situations, activities both before and after a particular set of circumstances arises or event occurs, may be relevant activities. When two or more entities have the current ability to direct relevant activities and those activities occur at different times, those entities shall determine which entity is able to direct the activities that most significantly affect those benefits consistently with the treatment of concurrent decision-making rights (see paragraph 28). The entities concerned shall reconsider this assessment over time if relevant facts or circumstances change.

Rights that Give an Entity Power over another Entity

AG16. Power arises from rights. To have power over another entity, an entity must have existing rights that give the entity the current ability to direct the relevant activities of the other entity. The rights that may give an entity power can differ.

AG17. Examples of rights that, either individually or in combination, can give an entity power include but are not limited to:

(a) Rights to give policy directions to the governing body of another entity that give the holder the ability to direct the relevant activities of the other entity;

(b) Rights in the form of voting rights (or potential voting rights) of another entity (see paragraphs AG32–AG52);

(c) Rights to appoint, reassign or remove members of another entity's key management personnel who have the ability to direct the relevant activities;

(d) Rights to appoint or remove another entity that directs the relevant activities;

(e) Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity;

(f) Rights to direct the other entity to enter into, or veto any changes to, transactions for the benefit of the entity;

(g) Rights to veto key changes to the other entity, such as the sale of a major asset or of the other entity as a whole; and

(h) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

AG18. In considering whether it has power, an entity will need to consider the binding arrangements that are in place and the mechanism(s) by which it has obtained power. Ways in which an entity may have obtained power, either individually or in combination with other arrangements, include:

(a) Legislative or executive authority;

(b) Administrative arrangements;

(c) Contractual arrangements;

(d) Founding documents (for example, articles of association); and

(e) Voting or similar rights.

AG19. To determine whether an entity has rights sufficient to give it power, the entity shall also consider the purpose and design of the other entity (see paragraphs AG5–AG8) and the requirements in paragraphs AG53–AG56 together with paragraphs AG20–AG22.

AG20. In some circumstances it may be difficult to determine whether an entity's rights are sufficient to give it power over another entity. In such cases, to enable the assessment of power to be made, the entity shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs AG21 and AG22, may provide evidence that the entity's rights are sufficient to give it power over the other entity:

(a) The entity can, without having the contractual right to do so, appoint or approve the other entity's key management personnel who have the ability to direct the relevant activities;

(b) The entity can, without having the contractual right to do so, direct the other entity to enter into, or can veto any changes to, significant transactions for the benefit of the entity;

(c) The entity can dominate either the nominations process for electing members of the other entity's governing body or the obtaining of proxies from other holders of voting rights;

(d) The other entity's key management personnel are related parties of the entity (for example, the chief executive officer of the other entity and the chief executive officer of the entity are the same person); or

(e) The majority of the members of the other entity's governing body are related parties of the entity.

AG21. Sometimes there will be indications that the entity has a special relationship with the other entity, which suggests that the entity has more than a passive interest in the other entity. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, if an entity has more than a passive interest in another entity this may indicate that the entity has other related rights sufficient to give it power or provide evidence of existing power over another entity. For example, the following suggests that the entity has more than a passive interest in the other entity and, in combination with other rights, may indicate power:

(a) The relationship between the entity and the other entity's operations is one of dependence, such as in the following situations:

(i) The entity funds a significant portion of the other entity's operations and the other entity depends on this.

(ii) The entity guarantees a significant portion of the other entity's obligations, and the other entity depends on this.

(iii) The entity provides critical services, technology, supplies or raw materials to the other entity, and the other entity depends on this.

(iv) The entity controls assets such as licenses or trademarks that are critical to the other entity's operations and the other entity depends on this.

(v) The entity provides key management personnel to the other entity (for example, when the entity's personnel have specialized knowledge of the other entity's operations) and the other entity depends on this.

(b) A significant portion of the other entity's activities either involve or are conducted on behalf of the entity.

(c) The entity's exposure, or rights, to benefits from its involvement with the other entity is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an entity is entitled, or exposed, to more than half of the benefits of the other entity but holds less than half of the voting rights of the other entity.

AG22. Public sector entities often have special relationships with other parties as a result of the indicators listed in paragraph AG21. Public sector entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG41 to AG42.

AG23. The greater an entity's exposure, or rights, to variability of benefits from its involvement with another entity, the greater is the incentive for the entity to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of benefits is an indicator that the entity may have power. However, the extent of the entity's exposure does not, in itself, determine whether an entity has power over the other entity.

AG24. When the factors set out in paragraph AG20 and the indicators set out in paragraphs AG21–AG23 are considered together with an entity's rights, greater weight shall be given to the evidence of power described in paragraph AG20.

Substantive Rights

AG25. An entity, in assessing whether it has power, considers only substantive rights relating to another entity (held by the entity and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

AG26. Determining whether rights are substantive requires judgment, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:

(a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:

(i) Financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.

(ii) An exercise or conversion price that creates a financial barrier that would prevent (or deter) the holder from exercising its rights.

(iii) Terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.

(iv) The absence of an explicit, reasonable mechanism in the founding documents of another entity or in applicable laws or regulations that would allow the holder to exercise its rights.

(v) The inability of the holder of the rights to obtain the information necessary to exercise its rights.

(vi) Operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (e.g., the absence of other managers willing or able to provide specialized services or provide the services and take on other interests held by the incumbent manager).

(vii) Legal or regulatory requirements that limit the manner in which rights may be exercised or that prevent the holder from exercising its rights (e.g., where another entity has statutory powers which permit it to operate independently of the government or where a foreign entity is prohibited from exercising its rights).

(b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors (or other governing body) whose members are independent of the decision maker may serve as a mechanism for numerous entities (or other parties) to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors (or other governing body) are more likely to be substantive than if the same rights were exercisable individually by a large number of entities (or other parties).

(c) Whether the party or parties that hold the rights would benefit from the exercise of those rights. For example, the holder of potential voting rights in another entity (see paragraphs AG49–AG52) shall consider the exercise or conversion price of the instrument. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money or the entity would benefit for other reasons (e.g., by realizing synergies between the entity and the other entity) from the exercise or conversion of the instrument.

AG27. To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

AG28. Substantive rights exercisable by other parties can prevent an entity from controlling the entity being assessed for control, to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs AG29–AG31), substantive rights held by other parties may prevent the entity from controlling the entity being assessed for control even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

Protective Rights

AG29. In evaluating whether rights give an entity power over another entity, the entity shall assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of another entity or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs AG15 and AG55).

AG30. Because protective rights are designed to protect the interests of their holder without giving that party power over the entity to which those rights relate, an entity that holds only protective rights cannot have power or prevent another party from having power over the entity to which those rights relate (see paragraph 29).

AG31. Examples of protective rights include but are not limited to:

(a) A lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.

(b) The right of a party holding a non-controlling interest in an entity to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.

(c) The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

(d) The right of a regulator to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down activities of an entity that breaches environmental regulations.

(e) The right to remove members of the governing body of another entity under certain restricted circumstances. For example, a state government may be able to remove or suspend the chairman of a municipality and appoint an administrator if the municipality is unable to make timely decisions about key policies.

(f) The right of the government to remove tax deductibility for contributions to a not-for-profit entity if the entity significantly changes its objectives or activities.

(g) The right of an entity providing resources to a charity to demand that, if the charity were to be liquidated, the net assets of the charity would be distributed to an organization undertaking similar activities. (However, if the entity had the power to determine specifically to where the charity's net assets would be distributed upon liquidation, the entity would have substantive rights in relation to the charity).

Voting Rights

AG32. Where an entity has voting or similar rights in respect of another entity, an entity should consider whether those rights give it the current ability to direct the relevant activities of the other entity. An entity considers the requirements in this section (paragraphs AG33–AG52) in making that assessment.

Power with a Majority of the Voting Rights

AG33. An entity that holds more than half of the voting rights of another entity has power in the following situations, unless paragraph AG34 or paragraph AG35 applies:

(a) The relevant activities are directed by a vote of the holder of the majority of the voting rights; or

(b) A majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

Majority of the Voting Rights but no Power

AG34. For an entity that holds more than half of the voting rights of another entity, to have power over that other entity, the entity's voting rights must be substantive, in accordance with paragraphs AG25–AG28, and must provide the entity with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the entity making the assessment of control, the entity making the assessment of control does not have power over the other entity.

AG35. An entity does not have power over another entity, even though the entity holds the majority of the voting rights in the other entity, when those voting rights are not substantive. For example, an entity that has more than half of the voting rights in another entity cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

Power without a Majority of the Voting Rights

AG36. An entity can have power even if it holds less than a majority of the voting rights of another entity. An entity can have power with less than a majority of the voting rights of another entity, for example, through:

(a) The power to appoint or remove a majority of the members of the board of directors (or other governing body), and control of the other entity is by that board or by that body (see paragraph AG38);

(b) A binding arrangement between the entity and other vote holders (see paragraph AG39);

(c) Rights arising from other binding arrangements (see paragraph AG40);

(d) The entity's voting rights (see paragraphs AG37 and AG43–AG48);

(e) Potential voting rights (see paragraphs AG49–AG52); or

(f) A combination of (a)–(e).

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

AG37. An entity may have the right of decisive vote, thus to veto all other voting rights of another entity. This type of right is sometimes referred to as a "golden share". Such special voting rights may give rise to power. Usually these rights are documented in the founding documents of the other entity (such as articles of association), and are designed to restrict the level of voting or other rights that may be held by certain parties. They may also give an entity veto powers over any major change in the other entity, such as the sale of a major asset or the sale of the other entity as a whole.

Control of the Board or Other Governing Body

AG38. An entity may have the power to appoint or remove a majority of the members of the board of directors (or other governing body) as a result of binding arrangements (including existing legislation, executive authority, regulation, contractual, or other arrangements).

Binding Arrangement with Other Vote Holders

AG39. A binding arrangement between an entity and other vote holders can give the entity the right to exercise voting rights sufficient to give the entity power, even if the entity does not have voting rights sufficient to give it power without the binding arrangement. However, a binding arrangement might ensure that the entity can direct enough other vote holders on how to vote to enable the entity to make decisions about the relevant activities.

Rights from Other Binding Arrangements

AG40. Other decision-making rights, in combination with voting rights, can give an entity the current ability to direct the relevant activities. For example, the rights specified in a binding arrangement in combination with voting rights may give an entity the current ability to direct the operating or financing policies or other key activities of another entity that significantly affect the benefits received by the entity. However, an entity would not control another entity if that other entity were able to determine its policy or program to a significant extent, (for example, by failing to comply with the binding arrangement and accepting the consequences, or by changing its constitution or dissolving itself).

Economic Dependence

AG41. Economic dependence, alone, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:

(a) An entity has a single major client and the loss of that client could affect the existence of the entity's operations; or

(b) An entity's activities are predominantly funded by grants and donations and it receives the majority of its funding from a single entity.

AG42. An entity may be able to influence the financial and operating policies of another entity that is dependent on it for funding. However, a combination of factors will need to be considered to determine whether the economic dependence is such that the economically dependent entity no longer has the ultimate power to govern its own financial or operating policies. If an economically dependent entity retains discretion as to whether it will take funding from an entity, or do business with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies. For example, a private school that accepts funding from a government but whose governing body has retained discretion with respect to accepting funds or the manner in which those funds are to be used, would still have the ultimate power to govern its own financial or operating policies. This may be so even if government grants provided to such an entity requires it to comply with specified conditions. Although the entity might receive government grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, its governing bodies may have ultimate discretion about how assets are used; the entity would therefore control its financial and operating policies. It is also important to distinguish between the operations of an entity and an entity itself. The loss of a major client might affect the viability of the operations of an entity but not the existence of the entity itself.

The Entity's Voting Rights

AG43. An entity with less than a majority of the voting rights has rights that are sufficient to give it power when the entity has the practical ability to direct the relevant activities unilaterally.

AG44. When assessing whether an entity's voting rights are sufficient to give it power, an entity considers all facts and circumstances, including:

(a) The size of the entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:

(i) The more voting rights an entity holds, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(ii) The more voting rights an entity holds relative to other vote holders, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(iii) The more parties that would need to act together to outvote the entity, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(b) Potential voting rights held by the entity, other vote holders or other parties (see paragraphs AG49–AG52);

(c) Rights arising from other binding arrangements (see paragraph AG40); and

(d) Any additional facts and circumstances that indicate the entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AG45. When the direction of relevant activities is determined by majority vote and an entity holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph AG44(a)–(c) alone, that the entity has power over the other entity.

AG46. In other situations, it may be clear after considering the factors listed in paragraph AG44(a)–(c) alone that an entity does not have power.

AG47. However, the factors listed in paragraph AG44(a)–(c) alone may not be conclusive. If an entity, having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings. This includes the assessment of the factors set out in paragraph AG20 and the indicators in paragraphs AG21–AG23. The fewer voting rights the entity holds, and the fewer parties that would need to act together to outvote the entity, the more reliance would be placed on the additional facts and circumstances to assess whether the entity's rights are sufficient to give it power. When the facts and circumstances in paragraphs AG20–AG23 are considered together with the entity's rights, greater weight shall be given to the evidence of power in paragraph AG20 than to the indicators of power in paragraphs AG21–AG23.

AG48. If it is not clear, having considered the factors listed in paragraph AG44(a)–(d), that the entity has power, the entity does not control the other entity.

Potential Voting Rights

AG49. When assessing control, an entity considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are rights to obtain voting rights of another entity, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the rights are substantive (see paragraphs AG25–AG28).

AG50. When considering potential voting rights, an entity shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the entity has with the other entity. This includes an assessment of the various terms and conditions of the instrument as well as the entity's apparent expectations, motives and reasons for agreeing to those terms and conditions.

AG51. If the entity also has voting or other decision-making rights relating to the other entity's activities, the entity assesses whether those rights, in combination with potential voting rights, give the entity power.

AG52. Substantive potential voting rights alone, or in combination with other rights, can give an entity the current ability to direct the relevant activities. For example, this is likely to be the case when an entity holds 40 per cent of the voting rights of another entity and, in accordance with paragraph AG26, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights.

Power when Voting or Similar Rights do not have a Significant Effect on Benefits

AG53. In assessing the purpose and design of another entity (see paragraphs AG5–AG8), an entity shall consider the involvement and decisions made at the inception of the other entity as part of its design and evaluate whether the transaction terms and features of the involvement provide the entity with rights that are sufficient to give it power. Being involved in the design of another entity alone is not sufficient to give an entity control of that other entity. However, involvement in the design of the other entity may indicate that the entity had the opportunity to obtain rights that are sufficient to give it power over the other entity and hence the ability to determine the purpose and design of an entity may give rise to power. In the case of an entity established with most (or all) of its relevant activities predetermined at inception, having the ability to determine the purpose and design of an entity may be more relevant to the control assessment than any on-going decision-making rights.

AG54. In addition, an entity shall consider rights arising from binding arrangements such as call rights, put rights, liquidation rights and rights arising from legislative or executive authority established at the inception of the other entity. When binding arrangements involve activities that are closely related to the other entity, then these activities are, in substance, an integral part of the other entity's overall activities, even though they may occur outside the legal boundaries of the other entity. Therefore, explicit or implicit decision-making rights embedded in binding arrangements that are closely related to the other entity need to be considered as relevant activities when determining power over the other entity.

AG55. For some other entities, relevant activities occur only when particular circumstances arise or events occur. The other entity may be designed so that the direction of its activities and the benefits from those activities are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the other entity's activities when those circumstances or events occur can significantly affect its benefits and thus be relevant activities. The circumstances or events need not have occurred for an entity with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.

AG56. An entity may have an explicit or implicit commitment to ensure that another entity continues to operate as designed. Such a commitment may increase the entity's exposure to variability of benefits and thus increase the incentive for the entity to obtain rights sufficient to give it power. Therefore a commitment to ensure that another entity operates as designed may be an indicator that the entity has power, but does not, by itself, give an entity power, nor does it prevent another party from having power.

Exposure, or Rights, to Variable Benefits from another Entity

AG57. When assessing whether an entity has control of another entity, the entity determines whether it is exposed, or has rights, to variable benefits from its involvement with the other entity.

AG58. Variable benefits are benefits that are not fixed and have the potential to vary as a result of the performance of another entity. Variable benefits can be only positive, only negative or both positive and negative (see paragraph 30). An entity assesses whether benefits from another entity are variable and how variable those benefits are on the basis of the substance of the arrangement and regardless of the legal form of the benefits. For example:

(a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. The benefits may be variable benefits for the purpose of this Standard because they may expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity might incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.

(b) In the context of financial benefits an entity can hold a bond with fixed interest payments. The fixed interest payments are variable benefits for the purpose of this Standard because they are subject to default risk and they expose the entity to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing another entity's assets are variable benefits because they expose the entity to the performance risk of the other entity. The amount of variability depends on the other entity's ability to generate sufficient revenue to pay the fee.

AG59. A liquidator would not normally have rights to variable benefits from its involvement with the entity being liquidated.

Link between Power and Benefits

Delegated Power

AG60. It is common for public sector entities to be responsible for carrying out government policy. In some cases they may have the authority to act in their own right, in other cases they may act as an agent for a Minister or another entity. For example:

(a) A government department, which is authorized by a Minister to act on the Minister's behalf, might act solely as an agent of the responsible Minister in relation to another entity. In such cases the department would not control the other entity and would not consolidate it.

(b) A government department may operate under a delegation of power from a Minister. The department uses its own discretion in making decisions and taking actions and is not subject to direction from the Minister. In such cases the department is acting in its own right and would need to apply the other requirements of this Standard to determine whether it controlled another entity. The scope of the department's decision-making authority over another entity would be a significant factor in distinguishing whether it is acting as an agent or as a principal.

(c) An entity may establish a trust to carry out specified activities and appoints the trustee. The trustee is responsible for making decisions about the financing and operating activities of the trust in accordance with the trust deed. If the entity can replace the trustee at its discretion, the entity would need to assess whether it controls the trust given that, for example, it would be exposed, or have rights, to variable benefits in terms of the extent to which its objectives are achieved or furthered through the activities of the trust.

AG61. An entity may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls another entity, the entity shall treat the decision-making rights delegated to its agent as held by the entity directly. In situations where there is more than one principal, each of the principals shall assess whether it has power over the other entity by considering the requirements in paragraphs AG5–AG56.Paragraphs AG62–AG74 provide guidance on determining whether a decision maker is an agent or a principal.

AG62. A decision maker shall consider the overall relationship between itself, the other entity being managed (and assessed for control) and other parties involved with that entity. In particular, a decision maker shall consider all the factors below, in determining whether it is an agent:

(a) The scope of its decision-making authority over the other entity (paragraphs AG64 and AG65);

(b) The rights held by other parties (paragraphs AG66–AG69);

(c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG70–AG72); and

(d) The decision maker's exposure to variability of benefits from other interests that it holds in the other entity (paragraphs AG73 and AG74).

Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances.

AG63. Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG62 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG67).

The Scope of the Decision-Making Authority

AG64. The scope of a decision maker's decision-making authority is evaluated by considering:

(a) The activities that are permitted according to the decision-making agreement(s) and specified by law, and

(b) The discretion that the decision maker has when making decisions about those activities.

AG65. A decision maker shall consider the purpose and design of the other entity, the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of another entity. For example, if a decision maker is significantly involved in the design of the other entity (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.

Rights held by Other Parties

AG66. Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of another entity. Substantive removal or other rights may indicate that the decision maker is an agent.

AG67. When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a decision maker and the greater the magnitude of, and variability associated with, the decision maker's other economic interests (i.e., remuneration and other interests), the less the weighting that shall be placed on this factor.

AG68. Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs AG25–AG28 for additional guidance on rights and whether they are substantive).

AG69. Consideration of the rights held by other parties shall include an assessment of any rights exercisable by another entity's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG26(b)).

Remuneration

AG70. The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the benefits expected from the activities of the other entity, the more likely the decision maker is a principal.

AG71. In determining whether it is a principal or an agent the decision maker shall also consider whether the remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.

AG72. A decision maker cannot be an agent unless the conditions set out in paragraph AG74(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.

Exposure to Variability of Benefits from Other Interests

AG73. A decision maker that holds other interests in another entity (e.g., investments in the other entity or provides guarantees with respect to the performance of the other entity), shall consider its exposure to variability of benefits from those interests in assessing whether it is an agent. Holding other interests in another entity indicates that the decision maker may be a principal.

AG74. In evaluating its exposure to variability of benefits from other interests in the other entity a decision maker shall consider the following:

(a) The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.

(b) Whether its exposure to variability of benefits is different from that of the other entities that receive benefits from the entity being assessed for control and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, another entity.

The decision maker shall evaluate its exposure relative to the total variability of benefits of the other entity. This evaluation is made primarily on the basis of benefits expected from the activities of the other entity but shall not ignore the decision maker's maximum exposure to variability of benefits of the other entity through other interests that the decision maker holds.

Relationship with Other Parties

AG75. When assessing control, an entity shall consider the nature of its relationship with other parties and whether those other parties are acting on the entity's behalf (i.e., they are "de facto agents"). The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the entity.

AG76. Such a relationship need not involve a binding arrangement. Such relationships could also arise from legislative or executive authority that does not meet the definition of a binding arrangement. A party is a de facto agent when the entity has, or those that direct the activities of the entity have, the ability to direct that party to act on the entity's behalf. In these circumstances, the entity shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable benefits through the de facto agent together with its own when assessing control of another entity.

AG77. The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the entity:

(a) The entity's related parties.

(b) A party that received its interest in the other entity as a contribution or loan from the entity making the assessment of control.

(c) A party that has agreed not to sell, transfer or encumber its interests in the other entity without the entity's prior approval (except for situations in which the entity and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties).

(d) A party that cannot finance its operations without subordinated financial support from the entity.

(e) Another entity for which the majority of the members of its governing body or for which its key management personnel are the same as those of the entity.

(f) A party that has a close business relationship with the entity, such as the relationship between a professional service provider and one of its significant clients.

Control of Specified Assets

AG78. An entity shall consider whether it treats a portion of another entity as a deemed separate entity and, if so, whether it controls the deemed separate entity.

AG79. An entity shall treat a portion of another entity as a deemed separate entity if and only if the following condition is satisfied:

Specified assets of the other entity (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the other entity. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the benefits from the specified assets can be used by the remaining portion of the other entity and none of the liabilities of the deemed separate entity are payable from the assets of the remainder of the other entity. Thus, in substance, all the assets, liabilities and equity instruments of that deemed separate entity are ring-fenced from the overall other entity. Such a deemed separate entity is often called a "silo".

AG80. When the condition in paragraph AG79 is satisfied, an entity shall identify the activities that significantly affect the benefits of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the other entity. When assessing control of the deemed separate entity, the entity shall also consider whether it has exposure or rights to variable benefits from its involvement with that deemed separate entity and the ability to use its power over that portion of the other entity to affect the amount of the benefits from that entity.

AG81. If the entity controls the deemed separate entity, the entity shall consolidate that portion of the other entity. In that case, other parties exclude that portion of the other entity when assessing control of, and in consolidating, the other entity.

Continuous Assessment

AG82. An entity shall reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20.

AG83. If there is a change in how power over another entity can be exercised, that change must be reflected in how an entity assesses its power over another entity. For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.

AG84. An event can cause an entity to gain or lose power over another entity without the entity being involved in that event. For example, an entity can gain power over another entity because decision-making rights held by another party or parties that previously prevented the entity from controlling another entity have lapsed.

AG85. An entity also considers changes affecting its exposure, or rights, to variable benefits from its involvement with another entity. For example, an entity that has power over another entity can lose control of that other entity if the entity ceases to be entitled or have the ability to receive benefits or to be exposed to obligations, because the entity would fail to satisfy paragraph 20(b) (e.g., if a contract to receive performance-related fees is terminated).

AG86. An entity shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the entity and other parties can mean that an entity no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the entity, or of other parties, occur, the entity shall reconsider its status as a principal or an agent.

AG87. An entity's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g., a change in the other entity's benefits driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 20 or changes the overall relationship between a principal and an agent.

Determining Whether an Entity is an Investment Entity

AG88. An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs AG89–AG106 describe aspects of the definition of an investment entity in more detail.

Number of Investors

AG89. The definition of an investment entity requires that the entity have one or more investors. An investment entity may have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the economic entity containing the entity, would obtain benefits other than capital appreciation or investment revenue.

AG90. However, in the public sector it is also common for an investment entity to be formed by, or for, a single controlling entity that represents or supports the interests of a wider group of investors (e.g., a pension fund, government investment fund or trust).

Ownership Interests

AG91. An investment entity is typically, but is not required to be, a separate legal entity. The investors in an investment entity will often, but not always, have ownership interests in the form of equity or similar interests (e.g., partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. The definition of an investment entity does not specify that all investors must have the same rights. Having different classes of investors, some of which have rights only to a specific investment or groups of investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.

AG92. The definition of an investment entity does not specify that the investors must have an ownership interest that meets the definition of net assets/equity in accordance with other applicable IPSASs. An entity that has significant ownership interests in the form of debt that does not meet the definition of net assets/equity may still qualify as an investment entity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

Purpose

AG93. The definition of an investment entity requires that the purpose of the entity is to invest solely for returns from capital appreciation, investment revenue (such as dividends or similar distributions, interest or rental revenue), or both. Documents that indicate what the entity's investment objectives are, such as the entity's mandate, constitution, offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's purpose. Further evidence may include the manner in which the entity presents itself to other parties; for example, an entity may present its objective as providing medium-term investment for capital appreciation.

AG94. An entity that has additional objectives that are inconsistent with the purpose of an investment entity would not meet the definition of an investment entity. Examples of when this may occur are as follows:

(a) An investor whose objective is to jointly develop, produce or market products with its investees. The entity will earn returns from the development, production or marketing activity as well as from its investments;

(b) An investor whose objectives require it to be aligned with the economic, social or environmental policies of another entity. For example, if an entity is required to align its investment policies with other objectives such as owning certain businesses or improving employment outcomes in a jurisdiction; and

(c) An investor whose individual investment decisions have to be ratified or approved by a controlling entity or which is required to follow the direction of a controlling entity. Such ratifications, approvals or decisions are likely to be inconsistent with the purpose of an investment entity.

AG95. An entity's purpose may change over time. In assessing whether it continues to meet the definition of an investment entity, an entity would need to have regard to any changes in the environment in which it operates and the impact of such changes on its investment strategy.

Demonstrating Purpose through Holding More than One Investment

AG96. An investment entity may have a number of ways in which it can demonstrate that its purpose is to invest funds for capital appreciation, investment revenue or both. One way is by holding several investments to diversify its risk and maximize its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.

AG97. There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

(a) Is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;

(b) Has not yet made other investments to replace those it has disposed of;

(c) Is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (e.g., when the required minimum investment is too high for an individual investor); or

(d) Is in the process of being disestablished.

Investment-Related Services and Activities

AG98. An investment entity may provide investment-related services (e.g., investment advisory services, investment management, investment support and administrative services), either directly or through a controlled entity, to third parties as well as to its controlling entity or other investors, even if those activities are substantial to the entity, subject to the entity continuing to meet the definition of an investment entity.

AG99. An investment entity may also participate in the following investment-related activities, either directly or through a controlled entity, if these activities are undertaken to maximize the investment return (capital appreciation or investment revenue) from its investees and do not represent a separate substantial activity or a separate substantial source of revenue to the investment entity:

(a) Providing management services and strategic advice to an investee; and

(b) Providing financial support to an investee, such as a loan, capital commitment or guarantee.

AG100. If an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing investment-related services or activities that relate to the investment entity's investment activities, such as those described in paragraphs AG98–AG99, to the entity or other parties, it shall consolidate that controlled entity in accordance with paragraph 57. If the controlled entity that provides the investment-related services or activities is itself an investment entity, the controlling investment entity shall measure that controlled entity at fair value through surplus or deficit in accordance with paragraph 56.

Exit Strategies

AG101. An entity's investment plans also provide evidence of its purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realize capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

AG102. Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialized property dealers or the open market.

AG103. An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

Fair Value Measurement

AG104. An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its controlled entities or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

(a) Provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with IPSASs; and

(b) Reports fair value information internally to the entity's key management personnel (as defined in IPSAS 20, *Related Party Disclosures*), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

AG105. In order to meet the requirement in AG104(a), an investment entity would:

(a) Elect to account for any investment property using the fair value model in IPSAS 16, *Investment Property*;

(b) Elect the exemption from applying the equity method in IPSAS 36 for its investments in associates and joint ventures; and

(c) Measure its financial assets at fair value using the requirements in IPSAS 29.

AG106. An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 35.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 35. As this Standard is based on IFRS 10, *Consolidated Financial Statements* (issued in 2011, including amendments up to December 31, 2014) issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 35 departs from the main requirements of IFRS 10, or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 49 *Consolidated Financial Statements* was based on IFRS 10 *Consolidated Financial Statements*, having regard to the relevant public sector modifications in IPSAS 6, *Consolidated and Separate Financial Statements*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 35. These new IPSASs supersede IPSAS 6, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures.*

Process

BC3. In developing the Standard the IPSASB had regard to those aspects of IPSAS 6 that had been developed specially to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard. The IPSASB also had regard to the guidance on assessing whether an entity is controlled for the purposes of the *Government Finance Statistics Manual* 2014 (GFSM 2014) with the aim of avoiding unnecessary differences. In developing additional examples that illustrated the public sector environment the IPSASB also considered guidance developed by national standard setters or by bodies with oversight responsibilities for sectors of government.

Alignment with Government Finance Statistics

BC4. Both at the time of developing ED 49, and as part of the process of finalizing the Standard, the IPSASB considered an analysis of similarities and differences between the definition of control, together with the associated indicators and guidance in GFSM 2014 (and the 2008 System of National Accounts (2008 SNA) with which the GFSM 2014 is harmonized) and the proposed Standard. The IPSASB noted that some of the differences between GFSM and financial reporting are due to their nature and differing objectives. For example, the classification of institutional units into sectors based on their economic nature of being government units will continue to be a significant difference between macroeconomic statistical reporting and accounting and financial reporting. Furthermore, the distinction between market producers and nonmarket producers in macroeconomic statistics would continue to result in a difference in terms of classification to either the general government sector or the public corporations sector, and therefore the overall classification to the public sector, even if there was exactly the same principle and conceptual guidance on the notion of control.

BC5. During the development of the Standard the IPSASB made a number of efforts to align more closely with guidance in GFSM 2014 or to explain more clearly the nature of differences. Issues in respect of which the IPSASB specifically considered GFSM requirements included:

(a) Whether to require the consolidation of all controlled entities, as opposed to reporting by sectors of government;

(b) The similarity between the concept of control in the Standard and the approach taken in GFSM 2014, including consideration of the indicators of control of nonprofit institutions and corporations in 2008 SNA;

(c) The differences between regulatory control and control for financial reporting purposes; and;

(d) The rights associated with golden shares.

Some of these matters are discussed in more detail in later sections of this Basis for Conclusions.

Scope (paragraphs 3–11)

Wholly-Owned and Partly-Owned Controlling Entities

BC6. The IPSASB agreed that, consistent with the requirements in IPSAS 6 and IFRS 10, wholly-owned or partly-owned controlling entities that meet certain conditions, and post-employment or other long-term employee benefit plans should not be required to present consolidated financial statements. The IPSASB decided that a controlling entity which itself is a controlled entity should not be required to present consolidated financial statements only if "users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements". This limitation is intended to protect users where such controlling entities represent key sectors or activities of a government and there are users that need consolidated financial statements for accountability or decision making purposes.

Application of the Consolidation Requirements to all Controlled Entities

BC7. The IPSASB noted the general principle in both IFRS 10 and IPSAS 6 that a controlling entity should consolidate, on a line by line basis, all of its controlled entities. The IPSASB noted that over recent years the potential scale and complexity of a public sector entity's involvement with other entities (particularly the relationships between a government and other entities) had increased. Government interventions had been a contributing factor to governments (and other public sector entities) having a broad range of interests in other entities, some of which could give rise to control as defined in this Standard. The implications of consolidation when a government has a large number of controlled entities, controlled entities carrying out activities that were formerly regarded as solely private sector activities, and controlled entities where control is intended to be temporary, had led some to query whether consolidation of all controlled entities was justified, having regard to the costs and benefits of doing so.

BC8. The IPSASB deliberated extensively on the issue of whether all controlled entities should be consolidated, having regard to users' needs. The IPSASB focused on the information provided by consolidated financial statements, whilst noting that users' information needs may also be met through other statements and reports such as (i) separate financial statements of both controlling and controlled entities; (ii) performance reports; and (iii) statistical reports. Although some of the IPSASB's discussions were relevant to any type of public sector entity that is a controlling entity, many of the matters considered were more pertinent at the whole of government level. The IPSASB considered views on the usefulness of consolidation in relation to the following types of controlled entities (whilst noting that these broad categories would not be universally applicable):

(a) Departments and ministries;

(b) Government agencies;

(c) [Government Business Enterprises (GBE)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016);

(d) Financial institutions (excluding government sponsored enterprises); and

(e) Other investments (including intentional investments, incidental investments and investment entities).The term "incidental investments" was used to refer to interests acquired in the course of meeting another objective, such as preventing the collapse of a private sector entity.

BC9. The IPSASB noted that, although there was general agreement that consolidation of controlled departments and ministries and government agencies is appropriate, some members were less certain that the cost of preparing consolidated financial information was justified for other categories of controlled entities.

BC10. The IPSASB noted arguments in support of requiring consolidation of all controlled entities of a government, including the following:

(a) Consolidated financial statements provide a panoramic view of a government's activities and current financial position. This panoramic view ensures that users do not lose sight of the risks associated with certain sectors. It shows the performance of the government as a whole.

(b) Identifying categories of entities which should not be consolidated could be difficult. Such attempts could lead to rules-based standards. For example, there could be difficulties in separately identifying entities rescued from financial distress on a consistent basis across jurisdictions and over time. Similar issues could arise in respect of any separate proposals for GBEs. Although the term GBE was a defined term within IPSASs when this Standard was issued, the IPSASB noted that there were differences in the way this definition is being applied in practice in different jurisdictions. In addition to the issue of clearly identifying any group of entities for which different accounting requirements would be appropriate, the IPSASB noted that similar activities can be conducted by a variety of entity types both within and across jurisdictions. So, although proposals for different accounting treatments might lead to consistent treatment for a group of entities within a jurisdiction, it might not result in comparable accounting for similar activities.

(c) Consolidation of all controlled entities is an example of like items being accounted for in like ways. Exceptions to consolidation reduce the coherence of the financial statements. Given that there could be a number of entities that could potentially be regarded as warranting separate treatment or disclosure, this could adversely affect the coherence of consolidated financial statements.

(d) Whole of government financial statements have a different perspective from separate financial statements. Separate financial statements provide information on the activities of the core government.

BC11. The IPSASB also noted arguments that have been raised in opposition to consolidation of certain controlled entities of a government, including the following:

(a) The consolidation of entities that have activities that differ from the activities of the core government could obscure the presentation of the results and the condition of the government itself. This argument was raised in relation to a variety of controlled entities including manufacturing activities, large financial institutions, temporarily controlled entities and entities with financial objectives as opposed to social objectives.

(b) Some consider that equity accounting for certain categories of controlled entities provides appropriate information on financial performance subsequent to acquisition without incurring high costs or obscuring information about the core government.

(c) Some consider that it is inappropriate to consolidate entities that have been rescued from financial distress because they do not represent core government activities and are not intended to be long-term investments.

(d) Where governments have high numbers of controlled entities the costs of the consolidation process are high and may be perceived to outweigh the benefits of consolidating those entities on a line by line basis.

BC12. Reflecting on these arguments for and against requiring consolidation of all controlled entities the IPSASB had regard to:

(a) The objectives of financial reporting, as outlined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework)*;

(b) The limited availability of evidence on user needs and usefulness of consolidated financial information (particularly on the usefulness of consolidated financial information in respect of specific types of controlled entities);

(c) The context within which whole of government consolidated financial statements are prepared;

(d) The interaction between the definition of control and the consolidation requirements in the proposed Standard; and

(e) The IPSASB's role as an international accounting standard setter.

BC13. With regard to the objectives of financial reporting, the IPSASB noted that Chapter 2 of the *Conceptual Framework* identifies the objectives of financial reporting as being to provide information that is useful for accountability purposes and for decision-making purposes. Because of the importance of the budget in the public sector (and the importance of demonstrating compliance with the budget) the IPSASB considered an argument that consolidated financial statements should consolidate only those entities that comprise a government's budget entity. However, the IPSASB agreed that a budget entity approach would not be appropriate for general purpose financial reporting because:

(a) Decisions about which entities are included in a government's budget may be based on factors other than the degree of autonomy of the entity and the extent to which it provides market goods or makes a commercial return.

(b) Decisions about which entities are included in a government's budget are often related to whether the entity's activity is intended to be self-funding. The exclusion of self-funding entities from a government's budget, essentially allows the offsetting of revenue and expenses for those activities and means that budget sector information does not reflect the substance of all transactions controlled by a government.

(c) The budget boundary for a jurisdiction is determined within a jurisdiction. If financial reporting were based on budget sectors there would not be standardized and comparable financial reporting by governments in an international context.

BC14. IPSAS 6 required the consolidation of all controlled entities apart from controlled entities where there was evidence that (a) control was intended to be temporary because the controlled entity was held exclusively with a view to its disposal within twelve months from acquisition and (b) management was actively seeking a buyer. Such temporarily controlled entities were required to be accounted for as financial instruments. The IPSASB considered whether this treatment of temporarily controlled entities should also be required in the proposed Standard. The IPSASB noted a number of concerns regarding the requirements in IPSAS 6. These included:

(a) The difficulty of identifying temporarily controlled entities;

(b) The difficulty of justifying a different accounting treatment for controlled entities that are held for more than a couple of years (which can occur with some entities that are initially considered to be temporarily controlled);

(c) The difficulty of disposing of an investment in its current form. A public sector entity may need to retain responsibility for certain risks in order to dispose of its investment in a temporarily controlled entity. Accounting for such entities as financial instruments provides only a partial representation of the risks associated with the investment;

(d) If a public sector entity is exposed to risks from an investment in a "temporarily" controlled entity, these risks should be reported consistently with the risk exposures from other controlled entities; and

(e) The provision of additional explanations by the reporting entity can address some of the issues that arise when large temporarily controlled entities are consolidated.

BC15. The IPSASB therefore decided not to require a different accounting treatment for temporarily controlled entities. Respondents to ED 49 generally agreed with this proposal, for similar reasons to the IPSASB. In discussing respondents' comments the IPSASB acknowledged the arguments made by those that considered there should be an exemption from consolidation for temporarily controlled entities, particularly those acquired by a government to protect the interests of citizens. However, the IPSASB also noted the experience of various jurisdictions in accounting for such situations and that consolidation of such entities had occurred in some jurisdictions. The IPSASB also considered the weight of the support for the removal of the exemption. Respondents noted that such investments can ultimately be held for longer periods than originally envisaged. Some respondents encouraged the IPSASB to consider requiring additional disclosures in respect of entities acquired with a view to disposal. The IPSASB agreed to require disclosure of interests in other entities held for sale in IPSAS 38, *Disclosure of Interests in Other Entities*.

BC16. In considering the existence of research regarding the usefulness of consolidated financial statements in meeting user needs, the IPSASB noted that although an increasing number of governments are applying the accrual basis of accounting, this has been a relatively recent trend and consolidation is often implemented in stages, with core government activities being consolidated first, followed by the consolidation of other categories of entities as time and resources permit. As a result, there are few jurisdictions that currently present consolidated whole of government financial statements, and empirical research on the usefulness of consolidated whole of government financial statements has been limited. Research to date has tended to focus on who uses consolidated financial statements and the overall benefits of consolidated financial statements, as opposed to the usefulness of consolidating certain types of controlled entities or accounting for them in an alternative way. As part of its deliberations the IPSASB did consider alternative ways of accounting for and presenting information on subsets of controlled entities such as temporarily controlled entities. The IPSASB noted the difficulties of consistently identifying categories of controlled entities that might be accounted for differently or subject to additional disclosures.

BC17. The IPSASB noted that in developing its requirements for investment entities the IASB focused on user needs. Matters considered by the IPSASB in relation to investment entities are discussed later in this Basis for Conclusions.

BC18. The IPSASB noted that many governments prepared statistical reports which present consolidated financial information in a sectoral approach, breaking down between the general government sectors and public corporation sectors (Non-Financial and Financial). This information is compiled in accordance with statistical guidance in the 2008 SNA, which, in turn, is consistent with guidance in the GFSM 2014 and the European System of Accounts (ESA 2010). The IPSASB considered whether such a statistical approach could be considered as an alternative to the compilation of whole of government accounts based on the IPSAS approach. The IPSASB noted that IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provides guidance on the presentation of such statistical information in consolidated financial statements. However, IPSAS 22 neither requires the provision of such information in consolidated financial statements, nor permits the presentation of such information as an alternative to consolidation of all controlled entities. Although the IPSASB noted that statistical reporting serves an important role and provides information that is comparable across countries, the IPSASB agreed that such information had a different objective and did not fulfill the role of consolidated financial statements in giving an overview of all government activity. The IPSASB also noted that mandating the provision of statistical sector information by governments other than national governments could be difficult. The IPSASB therefore agreed that any changes to IPSAS 22 should not form part of its project to update IPSASs 6 to 8. Although the IPSASB decided not to provide guidance in this Standard on the presentation of information on statistical sectors, it noted that governments may present consolidated financial statements that are disaggregated by statistical sector.

BC19. ED 49 therefore proposed the consolidation of all controlled entities, other than the exception(s) from consolidation relating to investment entities (discussed separately in this Basis for Conclusions). The IPSASB sought the views of constituents as to whether there are any categories of entities that should not be consolidated, with any proposals for non-consolidation being justified having regard to user needs. Respondents were generally supportive of this proposal, although a number of respondents highlighted implementation difficulties (for example, the costs associated with consolidating a large number of controlled entities). Some respondents also commented on the existence of reporting entities established through legal or administrative means and noted that they may differ from the reporting entity identified in accordance with the proposed Standard. The IPSASB agreed to acknowledge, in the Standard, the existence of reporting entities established through legal or administrative means.

Investment Entities

BC20. In October 2012 the IASB issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27). As a result of these amendments IFRS 10 requires that a controlling entity that is an investment entity account for most of its investments at fair value through profit or loss, as opposed to consolidating them. The IPSASB considered the appropriateness of the requirements in IFRS 10 for similar entities in the public sector. The IPSASB first considered which entities might be affected by such requirements. Entities that might meet the definition of an investment entity include some sovereign wealth funds, some pension funds and some funds holding controlling interests in public-private partnership projects (PPP) or private finance initiatives (PFI). The IPSASB noted that any requirements applicable only to investment entities might apply to a relatively small number of public sector entities (having regard to the types of entities that might be investment entities and the fact that these entities might be required to report in accordance with a range of accounting standards, including domestic standards).

BC21. The IPSASB noted the comments made by respondents to the IASB in relation to the IASB's investment entity proposals and considered that similar arguments would apply in the public sector. Indeed, the IPSASB noted that some types of entities specifically identified by the IASB as potential investment entities (for example, sovereign wealth funds) could be public sector entities applying IPSASs. The IPSASB noted the IASB's focus on user needs in the IASB's deliberations on investment entities. The IPSASB noted that, depending on the reporting framework of the jurisdiction in which they operate, a public sector investment entity might be required to report in accordance with IPSASs, IFRSs, or domestic standards. The IPSASB agreed that the IFRS 10 requirement for an investment entity to account for its investments at fair value appeared to be appropriate in the public sector. The IPSASB also noted that consistent requirements in IPSASs and IFRSs would reduce any opportunity for accounting arbitrage when determining which accounting standards an investment entity should be required to apply.

BC22. The IPSASB considered whether the definition of an investment entity in IFRS 10 was appropriate in the public sector. The IPSASB agreed that the definition was largely appropriate although it noted that an investment entity will frequently have an external mandate that establishes its purpose (as opposed to the entity asserting its purpose to investors) and amended the definition accordingly. The IPSASB considered that it would be helpful to give additional public sector examples of scenarios in which an entity would not be an investment entity by virtue of having additional objectives.

BC23. The IPSASB considered whether the typical characteristics of an investment entity were appropriate for application in the public sector. The IPSASB noted that IFRS 10 allows for the possibility that an entity may be an investment entity, despite not meeting all the typical characteristics. In such cases the entity is required to explain why it is an investment entity, despite not having all of the typical characteristics of an investment entity. The IPSASB considered that the typical characteristics identified in IFRS 10 were not likely to be typical characteristics in the public sector context. For example, a sovereign wealth fund might:

(a) Have a single investor (being a Minister or a public sector entity). The fund could argue that it is investing funds on behalf of, or for the benefit of, citizens. IFRS 10, paragraph BC259, explicitly refers to government-owned investment funds and funds wholly owned by pension plans and endowments when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition of an investment entity.

(b) Have investors that are related parties. A fund with a related party investor could nevertheless be acting on behalf of many unrelated beneficiary investors.

(c) Have ownership interests in a form other than equity or similar interests. The IPSASB noted both that the form of ownership interests in sovereign wealth funds could vary, and that IFRS 10, paragraph BC264, specifically refers to pension funds and sovereign wealth funds when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition. IFRS 10, paragraph BC264, states "For example, a pension fund or sovereign wealth fund with a single direct investor may have beneficiaries that are entitled to the net assets of the investment fund, but do not have ownership units.

BC24. Because of the differences between the private and public sector, the IPSASB decided not to identify typical characteristics separately from the definition of an investment entity. The IPSASB noted that much of the discussion in IFRS 10 regarding the typical characteristics of investment entities described ways in which an entity could demonstrate that it met the definition of an investment entity. The IPSASB therefore decided to retain such guidance, but to locate it together with other guidance on the definition of an investment entity. The IPSASB agreed that the characteristic in IFRS 10 that "The individuals or entities that have provided funds to the entity are not related parties of the entity" did not reflect the public sector context and agreed to omit the guidance on that characteristic.

BC25. Although the IPSASB decided not to identify typical characteristics separately from the definition of an investment entity, the IPSASB considered that most public sector entities classifying themselves as investment entities should be required to disclose information about the judgments and assumptions made. The IPSASB considered that disclosure of these judgments and assumptions would be important for transparency and encourage appropriate use of the investment entity accounting requirements.

BC26. The IPSASB noted that in comparison with private sector entities which tend to have clear financial objectives, public sector entities can have a broader range of objectives, and these objectives can change over time. A public sector entity's objectives may also change as a result of changes in government policy and changes could lead to an entity that had formerly met the definition of an investment entity ceasing to do so. Having regard to the possibility of changing objectives the IPSASB therefore agreed to highlight the need for an entity to reassess its status on a regular basis.

BC27. The IPSASB noted that the IFRS 10 investment entity requirements apply to the financial statements of an investment entity itself – they cannot be applied by the controlling entity of any investment entity. IFRS 10 requires that a controlling entity that is not itself an investment entity shall present consolidated financial statements in which all controlled entities are consolidated on a line by line basis. The IPSASB considered whether the public sector context would lead it to place more or less weight on arguments considered by the IASB in relation to this matter, and whether there were any public sector characteristics that would support a differing accounting treatment by the controlling entity of an investment entity.

BC28. The IPSASB noted that the IASB had concerns that if a non-investment controlling entity were required to retain the fair value treatment used by its controlled investment entities, it could achieve different accounting outcomes by holding controlled entities directly or indirectly through a controlled investment entity. The IPSASB considered that this issue was of less concern in the public sector context. In particular the IPSASB noted that ownership interests through shares or other equity instruments are less common in the public sector. As a consequence, it is less likely that entities within an economic entity in the public sector would hold an ownership investment in the ultimate controlling entity and less likely that they would have ownership investments in other entities within the economic entity.

BC29. The IPSASB considered what type of information users would find most useful about a controlled investment entity. The IPSASB considered that users would find it most useful if the accounting for investments applied in a controlled investment entity's financial statements were extended to its controlling entity's financial statements. The IPSASB therefore proposed that a controlling entity with a controlled investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with the usual consolidation accounting policies required by the Standard. The IPSASB considered that its proposals reflect the fact that a controlling entity does not manage an investment entity itself on a fair value basis. Rather, it manages the investments of the investment entity on a fair value basis. This approach is also consistent with the accounting by an investment entity for its investments in other entities.

BC30. At the time that IPSAS 35 was being developed the IASB proposed to clarify aspects of the application of the investment entity requirements. The IASB issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) in December 2014. The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

Control (paragraphs 18–37)

BC31. The IPSASB agreed that the three requirements for control outlined in IFRS 10 are generally appropriate for the public sector. The IPSASB noted that the IFRS 10 requirements to have power, returns and a link between power and returns is similar to the approach previously taken by the IPSASB in IPSAS 6, although IPSAS 6 required that both power and benefits be present. Consistent with the terminology used in IPSAS 6 the IPSASB decided that the term "benefits" was generally more appropriate than "returns" in the public sector context (as discussed under the subheading "Terminology" below). However, the term "returns" continued to be used in the context of investment entities.

BC32. The IPSASB took note of the approach taken in Government Finance Statistics in relation to control over an entity. The 2008 SNA, paragraph 4.80, includes eight indicators of control of corporations and five indicators of control of nonprofit institutions and explains that "Although a single indicator could be sufficient to establish control, in other cases a number of indicators may collectively indicate control". Overall, the direction of the statistical indicators is on the same lines as the approach in this Standard and therefore the practical results of the respective analyses will likely largely coincide. Some of the indicators in GFS are mentioned in the following paragraphs.

Power (paragraphs 23–29)

BC33. The IPSASB decided to modify IFRS 10 to:

(a) Highlight the range of relevant activities that could occur in the public sector and stress that control of financial and operating policies can demonstrate power over relevant activities;

(b) Clarify that regulatory control and economic dependence do not give rise to power for the purposes of the Standard; and

(c) Discuss specific powers that could give rise to control in the public sector, including golden shares, a right to appoint the majority of the board of another entity, and powers obtained through legislation or enabling documents.

Regulatory Control

BC34. The IPSASB agreed that the previous guidance on regulatory control in IPSAS 6 should be incorporated in the Standard. The IPSASB noted that IFRS 10 had been developed for application by profit-oriented entities, few of whom have powers to create or enforce legislation or regulations. By contrast, the nature of government means that regulatory power occurs frequently in the public sector.

BC35. In considering how to incorporate guidance on regulatory control in the Standard the IPSASB noted that (i) the discussion of power in IFRS 10 focuses on the ability to influence the "relevant activities" of the investee, and (ii) power is only one of the three elements that are required for control to exist. The IPSASB decided to place the discussion of regulatory control alongside the discussion of power and relevant activities.

BC36. The IPSASB noted that the discussion of regulation and control in the 2008 SNA is similar to that previously in IPSAS 6. The 2008 SNA states:

> **Regulation and control**. The borderline between regulation that applies to all entities within a class or industry group and the control of an individual corporation can be difficult to judge. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities. It is possible for regulatory involvement to exist in important areas, such as in price setting, without the entity ceding control of its general corporate policy. Choosing to enter into or continue to operate in a highly regulated environment suggests that the entity is not subject to control. When regulation is so tight as to effectively dictate how the entity performs its business, then it could be a form of control. If an entity retains unilateral discretion as to whether it will take funding from, interact commercially with, or otherwise deal with a public sector entity, the entity has the ultimate ability to determine its own corporate policy and is not controlled by the public sector entity.

BC37. The IPSASB noted that the 2008 SNA discusses control by a dominant customer. It states:

> "In general, if there is clear evidence that the corporation could not choose to deal with non-public sector clients because of public sector influence, then public control is implied."

Economic Dependence

BC38. IFRS 10 paragraph B40 states that "…in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee." Although the IPSASB agreed that economic dependence, on its own, does not give rise to control, the IPSASB noted that, in the public sector, economic dependence may occur in conjunction with other rights. These other rights need to be assessed to determine if they give rise to control.

BC39. Because of the prevalence of economic dependence in the public sector the IPSASB decided that it was appropriate to discuss ways in which economic dependence can arise and include examples of economic dependence.

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

BC40. The IPSASB agreed that the Standard should acknowledge that special voting rights attaching to ownership interests (often referred to as "golden shares") will influence assessments of control. The IPSASB noted that such rights are also acknowledged in the GFSM 2014.

Substantive Rights

BC41. Statutory independence is common in the public sector. The IPSASB agreed to illustrate the ways in which statutory independence may influence an investor's assessments of rights. The Standard notes that the existence of statutory independence of an investee could be seen as a barrier to the investor exercising its rights (paragraph AG26). It also notes that the existence of statutory powers to operate independently does not, of itself, preclude an entity from being controlled by another entity (paragraph 25).

Terminology

BC42. In addition to making changes to reflect the standard terminology in IPSASs, the IPSASB agreed that a number of other changes to the terminology in IFRS 10 were appropriate. Unless noted otherwise in an IPSAS, this discussion of terminology is relevant to IPSASs 34 to 38.

Investor/Investee

BC43. IFRS 10 uses the terms "investor" and "investee" to denote (i) the potential controlling entity, being the entity that is applying the Standard to assess whether control exists and (ii) the potential controlled entity. The IPSASB considered that these terms were inappropriate in most parts of this Standard because they could be read as implying the existence of a financial instrument representing an ownership interest. Most assessments of control in the public sector do not involve such financial instruments.

BC44. The IPSASB considered other terms that could be used to describe investors and investees, in the context of the Standard. One option was to refer to an investor as a "potential controlling entity" and an investee as a "potential controlled entity". The IPSASB considered that these phrases, whilst clear in meaning, would be cumbersome to use throughout the Standard. The IPSASB noted that IPSASs generally refer to the entity applying the Standard as "the entity". In the case of this Standard, the entity applying the Standard is the entity that is assessing whether or not it controls another entity (referred to as the investor in IFRS 10). The entity applying the Standard is doing so in order to determine whether it controls another entity. The IPSASB therefore decided that, depending on the context, it would refer to the investor as "the entity" and the investee as "another entity", "other entity", or "entity being assessed for control".

BC45. The IPSASB agreed to retain use of the term "investors" where the Standard is referring to a specific investment and the term is used in accordance with its usual meaning. This was particularly relevant in the parts of the Standard dealing with investment entities.

BC46. The IPSASB also agreed that the terms "investor" and "investee" are appropriate when referring to interests in joint ventures and associates.

Binding Arrangements

BC47. The IPSASB agreed to replace most references to "contractual arrangements" in IFRS 10 with references to the term "binding arrangements". This change acknowledges that in some jurisdictions, entities applying IPSASs may not have the power to enter into contracts but nevertheless may have the authority to enter into binding arrangements. In addition, the IPSASB agreed that binding arrangements, for the purpose of this Standard, should encompass rights that arise from legislative or executive authority. The definition of binding arrangements used in this Standard is intentionally broader than that used in the financial instruments standards, where it is used in relation to rights that are similar to contracts and in respect of willing parties.

Benefits

BC48. The IPSASB agreed that the term "benefits" is more appropriate than the term "returns" in the public sector, particularly given the existence of control relationships in the absence of a financial investment in the controlled entity. The IPSASB considered that the term "returns" could be regarded as giving an inappropriate emphasis to financial returns, whereas, in the public sector, benefits are more likely to be non-financial than financial. The term "returns" was retained in the context of investment entities.

BC49. The IPSASB decided to modify IFRS 10 to:

(a) Highlight that many assessments of control in the public sector involve assessments of non-financial benefits;

(b) Note that benefits can have positive or negative aspects; and

(c) Include examples of benefits in a public sector context.

BC50. The IPSASB agreed to locate the examples of benefits in the body of the Standard as it considered that the examples would be particularly useful for an entity making an initial assessment of whether it might control other entities.

BC51. The definition of control in IPSAS 35 refers to "variable benefits" and this concept is referred to throughout the Standard. The IPSASB considered how the Standard would apply to benefits that appeared to be fixed or constant. The IPSASB noted that the IASB had explicitly considered this issue and had provided examples to show that benefits that appear to be fixed could in fact be variable, because they exposed the entity to performance risk. The IPSASB noted that the IASB examples related to financial benefits and agreed to incorporate an example of a non-financial benefit in paragraph AG58.

Uniform Reporting Dates

BC52. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the controlling entity and its controlled entities. The IPSASB noted that IFRS 10 requires that the financial statements used in preparing consolidated financial statements have the same reporting date, or where this is impracticable, requires that adjustments be made to the most recent financial statements of the controlled entities. In addition, IFRS 10 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Implementation Issues

BC53. A number of respondents commented on the difficulty of preparing consolidated financial statements, particularly when there are a large number of controlled entities, as in the case of whole of government financial statements. The IPSASB acknowledged these practical difficulties, whilst noting that most jurisdictions presenting consolidated financial statements have faced similar difficulties. In these jurisdictions the consolidating entities used simplifying strategies to cope with the complexity and the consolidation difficulties. Such strategies include:

(a) Assessing the existence of control for various categories of entities in phases, with an initial focus on entities that are likely to be material.

(b) Not consolidating (or deferring the consolidation of) controlled entities that are likely to be immaterial.

(c) Identifying the cost-effective ways of obtaining information about inter-entity balances and transactions.

(d) Not eliminating immaterial inter-entity transactions and balances.

(e) Considering whether all disclosures must be made in respect of all entities.

BC54. The IPSASB considered whether to provide specific guidance on the application of materiality when preparing consolidated financial statements but concluded that this would not be appropriate in a financial reporting standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

BC55. At the time that IPSAS 35 was being developed, the IASB was in the process of seeking feedback on proposals to amend IFRS 10 and IAS 28 so that the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute a business*, as defined in IFRS 3, *Business Combinations*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36, *Investments in Associates and Joint Ventures,* on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards-level requirements for public sector combinations.

BC56. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the loss of control of a former controlled entity to an investor's associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 35 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the loss of control of a former controlled entity *that does not contain an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 35.

BC57. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 35, to be applied from a date to be determined by the IPSASB.

Revision of IPSAS 35 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC58. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

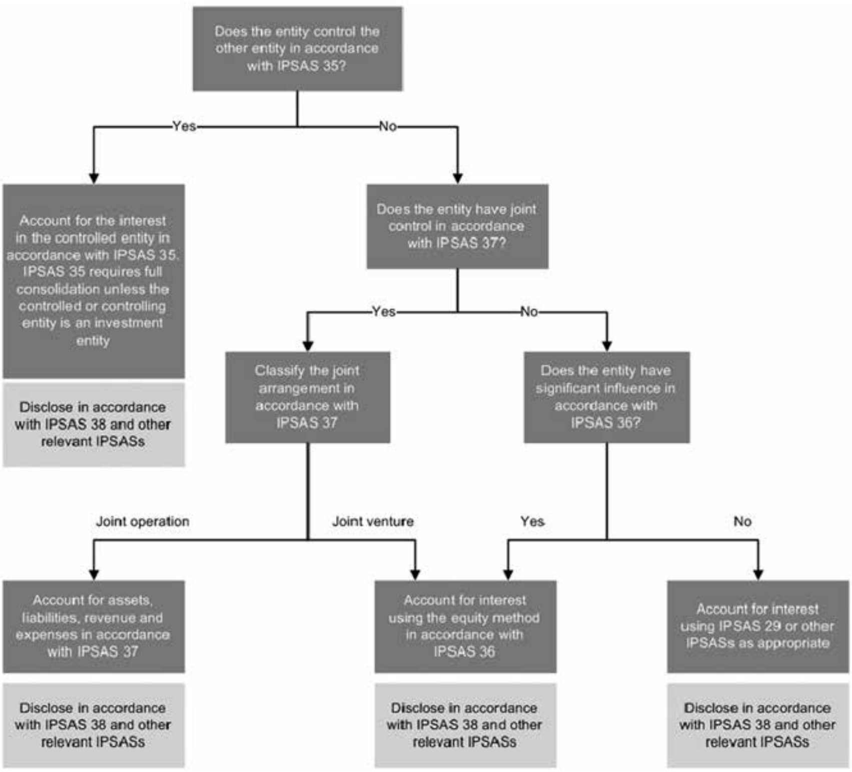
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 35.

Nature of Relationship with Another Entity

IG1. The diagram below summarizes the accounting for various types of involvement with another entity.

Flowchart 1: Forms of Involvement with Other Parties



Illustrative Examples

These examples accompany, but are not part of, IPSAS 35.

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 35.

Power (paragraphs AG9–AG56)

IE2. The following example illustrates an assessment of whether power exists for the purposes of this Standard.

Example 1

A state government partially funds the activities of a local government. Some of this funding is required to be spent on specified activities. The local government has a council that is elected every four years by the local community. The council decides how to use the local government's resources for the benefit of the local community. The activities of the local government are diverse and include library services, provision of leisure facilities, management of refuse and wastewater, and enforcement of building and health and safety regulations. These activities are the relevant activities of the local government. Many of these activities also coincide with the interests of the state government.

Despite its partial funding of the local government's activities, the state government does not have the power to direct the relevant activities of the local government. The rights of the local government over the relevant activities preclude the state government from having control.

Regulatory Control (paragraph AG12)

IE3. The following examples illustrate various forms of regulatory control. None of these forms of regulatory control give rise to power over the relevant activities for the purposes of this Standard. However, those examples do not rule out that there may be instances where power over the relevant activities for the purposes of this Standard may derive from regulatory control.

Example 2 A pollution control authority has the power to close down the operations of entities that are not complying with environmental regulations. The existence of this power does not constitute power over the relevant activities.
Example 3 A city has the power to pass zoning laws to limit the location of fast food outlets or to ban them altogether. The existence of this power does not constitute power over the relevant activities of the fast food outlets.

Example 4

A central government has the power to impose regulatory control on monopolies. A wholly owned government agency has the power to regulate monopolies that are subject to such regulatory control and has established price ceilings for entities that distribute electricity. The central government does not have an ownership interest in the electricity distributors and does not receive financial benefits from the electricity distributors. Neither the central government, nor the government agency, has control as a result of the power to impose regulatory control. Any other powers would need to be separately assessed.

Example 5

A gaming control board (GCB) is a government agency that regulates casinos and other types of gaming in a state, and enforces state gaming legislation. The GCB is responsible for promulgating rules and regulations that govern the conduct of gaming activities in the state. The rules and regulations stem from legislation. The legislation was passed by the legislature and sets forth the broad policy of the state with regard to gaming; while the rules and regulations provide detailed requirements that must be satisfied by a gaming establishment, its owners, employees, and vendors. The rules and regulations cover a broad range of activity, including licensing, accounting systems, rules of casino games, and auditing.

The GCB also has authority to grant or deny licenses to gaming establishments, their ownership, employees, and vendors. In order to obtain a license, an applicant must demonstrate that they possess good character, honesty and integrity. License application forms typically require detailed personal information. Based upon the type of license being sought, an applicant may also be required to disclose details regarding previous business relationships, employment history, criminal records, and financial stability.

Although the rules and regulations have an impact on how gaming establishments operate, the GCB does not have power over the relevant activities (as defined in this Standard) of the gaming establishments. The regulations apply to all gaming establishments and each establishment has a choice as to whether it wishes to engage in gaming or not. The purpose of the gaming legislation and regulations is to protect the public, rather than to establish a controlling interest in the gaming establishments.

Relevant Activities and Direction of Relevant Activities (paragraphs AG13–AG15)

IE4. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

Example 6

Entities A and B, form another entity, entity C, to develop and market a medical product. Entity A is responsible for developing and obtaining regulatory approval of the medical product—that responsibility includes having the unilateral ability to make all decisions relating to the development of the product and to obtaining regulatory approval. Once the regulator has approved the product, entity B will manufacture and market it—entity B has the unilateral ability to make all decisions about the manufacture and marketing of the product. If all the activities—developing and obtaining regulatory approval as well as manufacturing and marketing of the medical product—are relevant activities, entity A and entity B each needs to determine whether they are able to direct the activities that most significantly affect the benefits from entity C. Accordingly, entity A and B each need to consider whether developing and obtaining regulatory approval or the manufacturing and marketing of the medical product is the activity that most significantly affects the benefits from entity C and whether they are able to direct that activity. In determining which entity has power, entities A and B would consider:

(a) The purpose and design of entity C;

(b) The factors that determine the surplus, revenue and value of entity C as well as the value of the medical product;

(c) The effect of their decision-making authority on entity C's performance with respect to the factors in (b); and

(d) Their exposure to variability of benefits from entity C.

In this particular example, the entities would also consider:

(a) The uncertainty of, and effort required in, obtaining regulatory approval (considering their record of successfully developing and obtaining regulatory approval of medical products); and

(b) Which entity controls the medical product once the development phase is successful.

Example 7

An investment vehicle is created and financed with a debt instrument held by an entity (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual benefit from the investment vehicle. One of the equity investors who holds 30 per cent of the equity instruments is also the asset manager. The investment vehicle uses its proceeds to purchase a portfolio of financial assets, exposing the investment vehicle to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the investment vehicle. The benefits from the investment vehicle are significantly affected by the management of the investment vehicle's asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (i.e., when the value of the portfolio is such that the equity tranche of the investment vehicle has been consumed). From that time, a third-party trustee manages the assets according to the instructions of the debt investor. Managing the investment vehicle's asset portfolio is the relevant activity of the investment vehicle. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that most significantly affect the benefits from the investment vehicle, including considering the purpose and design of the investment vehicle as well as each party's exposure to variability of benefits.

Rights that Give an Entity Power over another Entity (paragraphs AG16–AG28)

IE5. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

Example 8

A government housing agency establishes a community housing program that provides low-cost housing. The program is operated under an agreement with an incorporated association. The association's only activity is to manage the community housing facility. The association has no ownership instruments.

The relevant activities of the association comprise:

- Reviewing and selecting applicants for housing;
- The day-to-day operation of the housing program;
- Maintaining the houses and common facilities; and
- Improving and extending the housing facilities.

The board of governors of the association has 16 members, with eight appointed by (and subject to removal by) the government housing agency. The chair is appointed by the board from amongst the appointees of the government housing agency, and has a casting vote that is rarely exercised. The board meets regularly and reviews reports received from the association's management. Based on these reports, the board may confirm or override management decisions. In addition, the board makes decisions on major issues such as significant maintenance and investing further capital to build additional housing, after reviewing vacancy levels and the demand for housing.

The government housing agency owns the land on which the housing facilities stand and has contributed capital and operating funds to the association since it was established. The association owns the housing facilities.

The association retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a direct financial return to the government housing agency. The above fact pattern applies to examples 8A and 8B described below. Each example is considered in isolation.

Example 8A

Based on the facts and circumstances outlined above, the government housing agency controls the association.

The government housing agency has rights that give it the current ability to direct the relevant activities of the association, regardless of whether it chooses to exercise those rights.

The government housing agency appoints eight members of the board of governors, one of whom will become the chair, who has a casting vote. As a result, the government housing agency has power over the association through substantive rights that give it the current ability to direct the relevant activities of the association, regardless of whether the government housing agency chooses to exercise those substantive rights.

The government housing agency also has exposure or rights to variable benefits from its involvement with the association. The government housing agency obtains non-financial benefits through the association furthering its social objective of meeting the need for low-cost community housing. Although not able to receive direct financial benefits, the government housing agency obtains indirect benefits through its ability to direct how the financial returns are to be employed in the community housing program.

The government housing agency also satisfies the final control criterion. Through its appointees on the board, the government housing agency has the ability to use its power to affect the nature or amount of its benefits from the association.

The government housing agency satisfies all three criteria for control and therefore the government housing agency controls the association.

Example 8B

In this example, the facts of Example 8A apply, except that:

(a) The association's board of governors is elected through a public nomination and voting process that does not give rights to the government housing agency to appoint board members; and

(b) Decisions made by the association's board are reviewed by the government housing agency, which may offer advice to the association.

Based on the revised facts and circumstances outlined above, the government housing agency does not have substantive rights relating to the association and therefore does not have power over the association.

The government housing agency's social objectives in relation to low-cost community housing are still being achieved and therefore it will still obtain direct non-financial benefits. However, congruence of objectives alone is insufficient to conclude that one entity controls another entity (refer paragraph 36).

The government housing agency does not have power and consequently does not have the ability to use power to affect the nature or amount of the agency's benefits. The government housing agency is unable to satisfy two of the three control criteria and therefore the government housing agency does not control the association.

Example 9

A government has the right to appoint and remove the majority of members of a statutory body. This power has been used by previous governments. The current government has not done so because it does not wish, for political reasons, to be regarded as interfering in the activities of the statutory body. In this case the government still has substantive rights, even though it has chosen not to use them.

Example 10

A local government has a policy that, where it holds land that is surplus to its requirements, consideration should be given to making the land available for affordable housing. The local government establishes terms and conditions to ensure that the housing provided remains affordable and available to meet local housing needs.

In accordance with this policy, the local government sold part of a site to a housing association for CU1 to provide 20 affordable homes. The remainder of the site was sold at open market value to a private developer.

The contract between the local government and the housing association specifies what the land can be used for, the quality of housing developments, ongoing reporting and performance management requirements, the process for return of unused land and dispute resolution. The land must be used in a manner consistent with the local government's policy for affordable housing.

The agreement also has requirements regarding the housing association's quality assurance and financial management processes. The housing association must demonstrate that it has the capacity and authority to undertake the development. It must also demonstrate the added value that can be achieved by joining the local government's resources with that of the housing association to address a need within a particular client group in a sustainable way.

The Board of the housing association is appointed by the members of the housing association. The local government does not have a representative on the Board.

Based on the facts and circumstances outlined above, the government housing agency does not hold sufficient power over the association to direct its relevant activities and therefore does not control the association. The local government may receive indirect, non-financial benefits from the association in that the local government's social objectives in relation to low-cost community housing are being furthered by the activities of the housing association. However, congruence of objectives alone is insufficient to conclude that one entity controls another (see paragraph 36). In order to have power over the housing association the local government would need to have the ability to direct the housing association to work with the local government to further the local governments' objectives.

Example 11

An entity being assessed for control has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders' meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

The above fact pattern applies to examples 11A–11D described below. Each example is considered in isolation.

Example 11A

An entity holds a majority of the voting rights in the other entity. The entity's voting rights are substantive because the entity is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the entity can exercise its voting rights does not stop the entity from having the current ability to direct the relevant activities from the moment the entity acquires the shareholding.

Example 11B

An entity is party to a forward contract to acquire the majority of shares in the other entity. The forward contract's settlement date is in 25 days. The existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract will have been settled. Thus, the entity has rights that are essentially equivalent to the majority shareholder in example 11A above (i.e., the entity holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). The entity's forward contract is a substantive right that gives the entity the current ability to direct the relevant activities even before the forward contract is settled.

Example 11C

An entity holds a substantive option to acquire the majority of shares in the other entity that is exercisable in 25 days and is deeply in the money. The same conclusion would be reached as in example 11B.

Example 11D

An entity is party to a forward contract to acquire the majority of shares in the other entity, with no other related rights over the other entity. The forward contract's settlement date is in six months. In contrast to the examples above, the entity does not have the current ability to direct the relevant activities. The existing shareholders have the current ability to direct the relevant activities because they can change the existing policies over the relevant activities before the forward contract is settled.

Power without a Majority of the Voting Rights and Special Voting Rights Attaching to Ownership Interests (paragraphs AG36–AG37)

IE6. The following examples illustrate assessments of whether special voting rights attaching to ownership interests in another entity give rise to power for the purposes of this Standard.

Example 12

A central government has privatized a company and, in order to protect its national interests, it has used a "golden share" mechanism. The "golden share" does not have any value or give any percentage rights to the capital of the company. The golden share states that control of the company, or a 24 percent stake in the company cannot be sold without the permission of the central government.

The central government has protective rights, not substantive rights.

Example 13

A central government sold all of its shares in a company, but kept a golden share (with a nominal value of one currency unit). The golden share granted the Secretary of State (as the holder of the share) a 15 percent shareholding in the company, and consequently the ability to block any potential takeover of the business. It also required that the chairman of the board and the chief executive be citizens of the country. The rationale for the golden share was to protect the company from an overseas acquisition, principally on the grounds of national security.

The central government has protective rights, not substantive rights.

Example 14

A central government does not own any shares in defense companies. However it has passed legislation which specifies that, with respect to companies carrying out strategic activities for the defense and national security system, in the event that fundamental interests of national defense or security could be materially affected, the government may:

(a) Impose specific conditions on the purchase of an interest in any such company – by any person – relating to the security of procurement and of information, the transfer of technologies and export controls;

(b) Veto the purchase by any person – other than the state (whether directly or indirectly, individually or jointly) – of an interest in the voting share capital in any such company that, given its size, may jeopardize defense or national security; and

(c) Veto the adoption of resolutions by the shareholders or the board of directors of any such company relating to certain extraordinary transactions (such as mergers, de-mergers, assets disposals, winding up, and bylaws amendments concerning the corporate purpose or equity ownership caps in certain state-controlled companies).

The central government has protective rights, not substantive rights, in respect of these companies.

Control of the Board or Other Governing Body (paragraph AG38)

IE7. The following example illustrates assessments of whether an entity has control of the board or governing body of another entity for the purposes of this Standard. The existence of such control may provide evidence that an entity has sufficient rights to have power over another entity.

Example 15

A national museum is governed by a board of trustees who are chosen by the government department responsible for funding the museum. The trustees have freedom to make decisions about the operation of the museum.

The department has the power to appoint the majority of the museum's trustees. The department has the potential to exercise power over the museum.

Economic Dependence (paragraphs AG41–AG42)

IE8. The following examples illustrate assessments of whether dependence on funding from another entity gives rise to power in the context of this Standard.

Example 16

A research institution is one of many institutions that receive the majority of their funding from a central government. The institutions submit proposals and the funding is allocated through a tendering process. The research institution retains the right to accept or decline funding.

The central government does not control the research institution because the research institution can choose to decline funding from the government, seek alternative sources of funding or cease to operate.

Example 17

A catering entity has a binding arrangement to supply food to a government-owned school. The arrangement is between the company and the school. The school contracts generate the majority of the revenue of the catering entity. There are general requirements, set out in regulations, which are applicable to all such arrangements including nutritional standards and policies on procurement. For example, the arrangements specify how much produce must be purchased locally.

Current arrangements are for a period of five years. At the end of this period, if the catering entity wishes to continue supplying school meals it is required to go through a tendering process and compete with other entities for the business.

The school does not control the catering entity because the catering entity can choose to stop supplying school meals, seek other work, or cease to operate.

Example 18

An international donor funds a project in a developing country. The donor uses a small, local agency in the country to run the project. The local agency has its own management board but is highly dependent on the donor for funding. The agency retains the power to turn down funding from the donor.

The international donor does not control the local agency because the agency can choose not to accept funding from the donor and seek alternative sources of funding, or cease to operate.

Voting Rights (paragraphs AG43–AG48)

IE9. The following examples illustrate assessments of whether an entity with less than a majority of the voting rights in another entity has the practical ability to direct the relevant activities unilaterally, and whether its rights are sufficient to give it power over that other entity for the purposes of this Standard.

Example 19

An entity acquires 48 per cent of the voting rights of another entity. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders have any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the entity determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the entity concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

Example 20

Entity A holds 40 per cent of the voting rights of another entity and twelve other investors each hold 5 per cent of the voting rights of the other entity. A shareholder agreement grants Entity A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, Entity A concludes that the absolute size of its holding and the relative size of the other shareholdings alone are not conclusive in determining whether it has rights sufficient to give it power. However, Entity A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the other entity. The fact that Entity A might not have exercised this right or the likelihood of Entity A exercising its right to select, appoint or remove management shall not be considered when assessing whether Entity A has power.

Example 21

Entity A holds 45 per cent of the voting rights of another entity. Two other investors each hold 26 per cent of the voting rights of the other entity. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. In this case, the size of Entity A's voting interest and its size relative to the other shareholdings are sufficient to conclude that Entity A does not have power. Only two other investors would need to co-operate to be able to prevent Entity A from directing the relevant activities of the other entity.

Example 22

An entity holds 35 per cent of the voting rights of another entity. Three other shareholders each hold 5 per cent of the voting rights of the other entity. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the other entity require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the other entity have been cast at recent relevant shareholders' meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the entity would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the entity has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the entity.

Potential Voting Rights (paragraphs AG49–AG52)

IE10. The following examples illustrate assessments of whether potential voting rights are substantive for the purposes of this Standard.

Example 23

Entity A holds 70 per cent of the voting rights of another entity. Entity B has 30 per cent of the voting rights of the other entity as well as an option to acquire half of Entity A's voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). Entity A has been exercising its votes and is actively directing the relevant activities of the other entity. In such a case, Entity A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although Entity B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the other entity), the terms and conditions associated with those options are such that the options are not considered substantive.

Example 24

Entity A and two other investors each hold a third of the voting rights of another entity. The other entity's business activity is closely related to Entity A. In addition to its equity instruments, Entity A also holds debt instruments that are convertible into ordinary shares of the other entity at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, Entity A would hold 60 per cent of the voting rights of the other entity. Entity A would benefit from realizing synergies if the debt instruments were converted into ordinary shares. Entity A has power over the other entity because it holds voting rights of the other entity together with substantive potential voting rights that give it the current ability to direct the relevant activities.

Power when Voting or Similar Rights do not have a Significant Effect on Benefits (paragraphs AG53–AG56)

IE11. The following examples illustrate assessments of whether an entity has power in the absence of voting rights or similar rights for the purposes of this Standard.

Example 25

A central government has legislation that governs the establishment of cultural and heritage boards. These boards have a separate legal status and have limited liability. The powers and objectives of the boards, along with their reporting requirements are specified by legislation. The main function of each board is to administer the board's assets, mainly property, for the general benefit of beneficiaries. Boards are permitted to spend money on the promotion of health, education, vocational training, and the social and economic welfare of the beneficiaries. They have limited authority to spend money unless it is for a purpose specifically mentioned in the legislation. Each board must deliver an annual financial report to the government. The beneficiaries (as defined by each board and comprising people from a specified area) elect the members of the board. Trustees are appointed for a three-year term by way of voting by beneficiaries at the annual general meeting. Each board determines its own operating and financial policies and strategy. The activities that have the biggest impact on the achievement of the boards' objectives are the management of property and the distribution of funds to the beneficiaries.

The central government does not control the boards. The government was involved in establishing the legislation that governs the activities of the boards, but does not have rights over the relevant activities of the boards.

Example 26

Five local authorities create a separate company to deliver shared services to participating authorities. The company operates under contract to these local authorities. The company's major objective is the provision of services to these local authorities.

The company is owned by all of the participating local authorities with each owning one share and allowed one vote. The chief executive of each local government is permitted to be a board member of the company. The board of the company is responsible for strategic direction, approval of business cases and monitoring of performance.

For each shared activity there is an advisory group that is responsible for operational management and decision-making in relation to that activity. Each advisory group consists of one representative from each local government.

The benefits of the shared services arrangement are:

- Improved levels and quality of service;
- A co-ordinated and consistent approach to the provision of services;
- Reductions in the cost of support and administrative services;
- Opportunities to develop new initiatives; and
- Economies of scale resulting from a single entity representing many councils in procurement.

If further shared service activities are established that lead to the need for further capital, the company will either issue a new class of equity instrument or will form a controlled entity to hold the interest in the new assets.

The company covers its costs in two ways. It retains a percentage of savings from its bulk purchasing activities and it charges an administrative transaction cost of services provided to the local authorities.

None of the local authorities individually controls the company. In deciding how to account for its interest in the company each local authority would also need to consider whether it is a party to a joint arrangement as defined in IPSAS 37, *Joint Arrangements*.

Example 27

A leisure trust was established as a charity, limited by guarantee, to operate and manage sport and leisure facilities on behalf of a local government. Under the terms of the agreement with the local government, the leisure trust is responsible for the operational management, delivery and development of the city's sports and leisure facilities. The trust is required to operate the existing leisure facilities of the local government. The level of service required, including hours of operation and staffing levels, are specified by the local government. The leisure trust's activities must be consistent with the long-term plan of the local government and a significant portion of the trusts activities are funded by the local government. The leisure trust may not create new facilities nor may it engage in any other activities without the approval of the local government.

If the leisure trust ceases to operate the proceeds must be distributed to another charity with similar purposes. The local government is not responsible for the debts of the leisure trust (its liability is limited to one currency unit).

The local government controls the leisure trust. By specifying in detail the way in which the leisure trust must operate the local government has predetermined the leisure trust's activities and the nature of benefits to the local government.

Example 28

A local government transfers its leisure centers, libraries and theatres into a charitable trust.

In creating the trust the local government expects to benefit from cost savings, increased use of facilities by the public, a more favorable taxation treatment, and better access to funding restricted to charities. The trust can decide the nature and extent of facilities to be provided and can engage in any other charitable purpose. The board of the trust is elected by the community. The local government is entitled to have one representative on the board. The trust is required to retain any surplus and use it for the objectives of the trust.

The local government benefits from the trust's activities but it does not control the trust. The local government cannot direct how the trust uses its resources.

Example 29

Trust A promotes, supports and undertakes programs, actions and initiatives to beautify City A. It receives funding from the local government for various services, including graffiti removal, beautification projects and running environmental events. It reports back to the local government on its performance in delivering these services. If the trust did not exist the local government would need to find some other way to deliver these services. The trust also receives assistance through donations and volunteer work by the local community including local businesses, schools, community groups and individuals.

The trust was originally established by an elected official of the local government.

The governing body of the local government appoints all the trustees (having regard to certain requirements such as balance in gender and location of trustees). There are between five and 12 trustees. The trustees appoint the officers.

Changes to the trust deed must be approved by the trustees and the governing body of the local authority.

If the trust is wound up, surplus assets must be transferred to a similar charitable body in the same geographical area. This transfer of assets is subject to the approval of the local government.

The local government has a mix of rights over the trust including rights to:

(a) Appoint, reassign or remove members of the trust's key management personnel who have the ability to direct the relevant activities;

(b) Approve or veto operating and capital budgets relating to the relevant activities of the trust; and

(c) Veto key changes to the trust, such as the sale of a major asset or of the trust as a whole.

The local government is able to direct the relevant activities (the services) of the trust through its arrangements in such a way that it is able to affect the costs and quality of the services being provided. The local government is exposed to variable returns (both the economic effects of the service and the quality of the service). As it uses its power to affect these returns, the local government controls the trust.

Example 30

Entity A is a public sector body that promotes the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions. It also facilitates access to housing finance and promotes competition and efficiency in the provision of housing finance.

Entity A established a separate trust which has narrowly defined objectives. The trust's functions are to acquire interests in eligible housing loans and issue mortgage bonds. Entity A guarantees the bonds issued by the trust but does not provide ongoing funding – the trust finances its activities through the revenue from its investments. If the trust is wound up the trust's assets are to be distributed to one or more charitable organizations. Entity A does not have on-going decision-making rights over the trust's activities.

Entity A has power over the relevant activities of the trust because it determined the relevant activities of the trust when it established the trust. Entity A is also exposed to variable benefits both through its exposure to the guaranteed bonds and because the trust's activities, determined by Entity A in establishing the trust, help Entity A to achieve its objectives.

Example 31

A funding agency was established by legislation. It is owned by ten local authorities and the central government. It operates on a for-profit basis. The funding agency will raise debt funding and provide that funding to the participating local authorities. Its primary purpose is to provide more efficient funding costs and diversified funding sources for the local authorities. It may undertake any other activities considered by the board to be reasonably related or incidental to, or in connection with, that business.

The main benefits to the participating local authorities are the reduced borrowing costs. The board of the funding agency may decide to pay dividends but dividend payments are expected to be low.

The board is responsible for the strategic direction and control of the funding agency's activities. The board will comprise between four and seven directors with a majority of independent directors.

There is also a shareholders' council which is made up of ten appointees of the shareholders (including an appointee from the central government). The role of the shareholders' council is to:

- Review the performance of the funding agency and the Board, and report to shareholders on that performance;
- Make recommendations to shareholders as to the appointment, removal, replacement and remuneration of directors; and
- Coordinate shareholders' governance decisions.

The funding agency purchases debt securities in accordance with its lending and/or investment policies, as approved by the board and/or shareholders.

To participate in the funding agency as a principal shareholding authority, each local government made an initial capital investment of CU100,000, provided security against future property taxes and agreed to borrow a set portion of its borrowing needs from the funding agency for a period of three years.

Neither the central government nor the participating local authorities control the funding agency. In deciding how to account for their interest in the funding agency the central government and participating local authorities would also need to consider whether they are parties to a joint arrangement as defined in IPSAS 37.

Example 32

Entity A's only business activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for Entity B. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable Entity A automatically puts the receivable to Entity B as agreed separately in a put agreement between Entity A and Entity B. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect Entity A's financial performance. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect Entity A's financial performance—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to Entity B. Therefore, only Entity B's right to manage the assets upon default should be considered when assessing the overall activities of Entity A that significantly affect Entity A's financial performance. In this example, the design of Entity A ensures that Entity B has decision-making authority over the activities that significantly affect the financial performance at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of Entity A. Therefore, the terms of the put agreement together with the founding documents of Entity A lead to the conclusion that Entity B has power over Entity A even though Entity B takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of Entity A.

Exposure, or Rights, to Variable Benefits from another Entity (paragraph AG57)

IE12. The following examples illustrate assessments of whether an entity receives variable benefits from another entity for the purposes of this Standard.

Example 33

Research has shown that family friendly policies at universities, which include the provision of quality early childhood education services, are critical in attracting and retaining students and staff. This is particularly important for attracting high-level staff and post-graduate students, which in turn help uphold the reputation of the University and its ability to obtain research funding.

The above background information is relevant to examples 33A and 33B described below. Each example is considered in isolation.

Example 33A

University A has established seven childcare centers (although University A receives government funding for its educational programs, the childcare centers have been established by the university, not by the government). The centers operate in University owned buildings. Each center has its own manager, staff and budget. The centers are able to be used by university staff and students only. The University is the licensed provider of childcare services. The University has the right to close centers or relocate them to other properties. Because the childcare center is on university property the staff and parents are required to comply with University health and safety policies. The management team of the childcare center has the ability to determine all other operating policies.

University A receives non-financial benefits from having childcare services available on campus. Although University A is not involved in the day-to-day running of the centers, it has the ability to close the centers or change their hours of operation.

University A controls the childcare centers.

Example 33B

University B has made a building available free of charge for the provision of childcare services on the grounds of the University. The childcare services are provided by an incorporated society. All parents using the childcare center are members of the society. The members appoint the Board of the incorporated society and are in charge of the childcare center's operating and financial policies. The childcare center is able to be used by staff, students and the general public, with students having priority. Because the childcare center is on University property the staff and parents are required to comply with University health and safety policies. The incorporated society is the licensed provider of childcare services. If the incorporated society ceases to operate, its resources must be distributed to a similar non-profit organization. The incorporated society could choose not to use the University's buildings in providing its services.

Although the University receives non-financial benefits from having childcare services available on campus it does not have power to direct the relevant activities of the incorporated society. The members of the incorporated society, being the parents of the children, have the power to direct the relevant activities of the incorporated society. The University does not control the incorporated society.

Link between Power and Benefits

Delegated Power (paragraphs AG60–AG63)

IE13. The following examples illustrate assessments of whether an entity is acting as a principal or an agent for the purposes of this Standard.

Example 34

A government department may be responsible for monitoring the performance of another public sector entity. The role of the monitoring department is to make sure the other entity's approach is consistent with the government's goals, provide Ministers with quality assurance about delivery and results and assess and notify the Minister of any risks. The department has an explicit agreement with the Minister which sets out its monitoring responsibilities. The department has the authority to request information from the other entity and provides advice to the Minister on any funding requests from that entity. The department also advises the Minister as to whether the other entity should be permitted to undertake certain activities. The department is acting as an agent of the Minister.

Example 35

A provincial government establishes a trust to co-ordinate fundraising efforts for the benefit of health programs and other health initiatives in the region. The trust also invests and manages designated endowment funds. The funds raised are applied to the government-owned hospitals and aged care facilities in the region.

The provincial government appoints all the trustees on the board of the trust and funds the trust's operating costs. The trust is a registered charity and is exempt from income tax.

Based on the following analysis, the provincial government controls the trust:

(a) The provincial government can give directions to the trustees, and the trustees have the current ability to direct the relevant activities of the trust. The trustees have power over the trust and the provincial government can replace the trustees at its discretion. The trustees' fiduciary obligation to act in the best interest of the beneficiaries does not prevent the provincial government from having power over the trust;

(b) The provincial government has exposure and rights to variable benefits from involvement with the trust;

(c) The provincial government can use its power over the trust to affect the nature or amount of the trust's benefits; and

(d) The activities of the trust are complementary to the activities of the provincial government.

Example 36

A statutory body is established under legislation to deliver services to the community. The statutory body has a governing council that oversees the body's operations and is responsible for its day-to-day operations. The Minister of Health for the provincial government appoints the statutory body's governing council and, subject to the Minister's approval, the statutory body's governing council appoints the chief executive of the body.

The provincial government's Health Department acts as the "system manager" for the provincial public health system. This role includes:

(a) Strategic leadership, such as the development of provincial-wide health service plans;

(b) Directions for the delivery of health services, such as entering into service agreements, capital works approval and management of provincial-wide industrial relations, including employment terms and conditions for the statutory body's employees; and

(c) Monitoring of performance (e.g., quality of health services and financial data) of the authority and taking remedial action when performance does not meet specified performance measures.

The Minister's approval is specifically required for the following major decisions:

(a) Entering into service agreements with the body;

(b) Issuing binding health service directives;

(c) Finalization of health service plans and capital works planning; and

(d) Employment and remuneration of the statutory body's executive staff.

The Health Department receives all its operating and capital funding from the provincial government.

Based on the facts and circumstances outlined above, the Health Department generally acts as an agent of the Minister in relation to the statutory body. This is evident from the restricted decision-making authority held by the Department. The Health Department does not control the statutory body.

As the Minister appoints the statutory body's governing council and approves the major decisions affecting the body's activities, the Minister has the power to direct the relevant activities of the body. Assuming that the other control criteria (variable returns and link between power and benefits) are satisfied, as would be expected, then the Minister would control the statutory body. As a result, the statutory body would be consolidated in the provincial government's whole of government general purpose financial statements.

Example 37

The facts are the same as in Example 36 except that:

(a) The Minister has delegated the power to appoint members of the statutory body's governing council to the Health Department's head;

(b) The appointment of the statutory body's chief executive by the governing council does not require the Minister's approval;

(c) The Minister has delegated the power to approve the major decisions to the Health Department's head; and

(d) Assessments of the Health Department's performance encompass the performance of the statutory body.

The Minister could still exercise the powers that have been delegated to the Health Department's head, but in practice, is unlikely to do so.

In this example, the scope of the decision-making authority held by the Health Department has increased significantly as a result of the delegations by the Minister to the Health Department head. As the Health Department acts as a principal under the delegations, the Department has the current ability to direct the relevant activities of the statutory body so as to achieve the health service objectives of the Health Department. As the Health Department also has the ability to use its power over the authority to affect the nature or amount of the Department's benefits, the Department controls the statutory body.

Example 38

The head of the government department related to finance and taxation (the Treasury) is designated by law as the managing trustee for a number of investment funds. The investment funds are funded by designated taxes and are used to deliver federal welfare programs. The Treasury collects most of the designated tax revenue that relates to these funds. Other agencies also collect some of the revenues and forward these to the Treasury.

The Treasury is delegated the responsibility for administering the funds. For each of the funds, the Treasury immediately invests all receipts credited to the fund, and maintains the invested assets in a designated trust fund until money is needed by the relevant agency.

When the relevant agencies determine that monies are needed, the Treasury redeems securities from the funds' investment balances, and transfers the cash proceeds, including interest earned on the investments, to the program accounts for disbursement by the agency. The Treasury provides monthly and other periodic reporting to each agency. The Treasury charges a management fee for its services.

The Treasury does not control the funds.

Example 39

A local government administers ten funds, each relating to a specific district. The funds hold specified assets (such as land, property and investments) that belonged to districts that previously had their own local government but which have since been amalgamated with other districts. The funds receive the revenue associated with the assets and certain taxes such as the property taxes for that district. The rights of the funds to hold these specified assets and receive the specified revenue are set out in legislation. The assets and revenue of the fund may be applied solely for the benefit of the inhabitants of the former districts.

The local government has wide discretion over spending by the funds. Funds must be applied for the benefit of the community in such a manner as using reasonable judgment the local government thinks proper and having regard to the interests of the inhabitants of the former district. The local government may apply the fund to spending which is not covered by council taxation. Expenditure charged to the fund must be for purposes permitted by law.

The funds are controlled by the local government.

Example 40

A sovereign wealth fund (the fund) is a constitutionally established permanent fund, managed by a government corporation. Legislation specifies that the fund is entitled to receive at least 25% of proceeds from oil sales. The fund sets aside a certain share of these revenues to benefit current and future generations of citizens.

The corporation manages the assets of both the fund and certain other state investments and is remunerated for doing so. The corporation may not spend the fund revenue. Decisions on spending fund revenue are made by the Parliament. Each year, the fund's revenue is split between operating expenses and an annual payment to residents that meet certain criteria specified in legislation.

The corporation does not control the sovereign wealth fund. It acts solely as an agent.

Example 41

A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a 10 per cent pro rata investment in the fund and receives a market-based fee for its services equal to 1 per cent of the net asset value of the fund. The fees are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10 per cent investment. The fund is not required to establish, and has not established, an independent board of directors. The investors do not hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund.

Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund—the investors do not hold substantive rights that could affect the fund manager's decision-making authority. The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of benefits from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.

In this example, consideration of the fund manager's exposure to variability of benefits from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 42

A decision maker establishes, markets and manages a fund that provides investment opportunities to a number of investors. The decision maker (fund manager) must make decisions in the best interests of all investors and in accordance with the fund's governing agreements. Nonetheless, the fund manager has wide decision-making discretion. The fund manager receives a market-based fee for its services equal to 1 per cent of assets under management and 20 per cent of all the fund's surplus if a specified level of surplus is achieved. The fees are commensurate with the services provided.

Although it must make decisions in the best interests of all investors, the fund manager has extensive decision-making authority to direct the relevant activities of the fund. The fund manager is paid fixed and performance-related fees that are commensurate with the services provided. In addition, the remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund, without creating exposure to variability of benefits from the activities of the fund that is of such significance that the remuneration, when considered in isolation, indicates that the fund manager is a principal.

The above fact pattern and analysis applies to examples 42A-42C described below. Each example is considered in isolation.

Example 42A

The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

The fund manager's 2 per cent investment increases its exposure to variability of benefits from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. In this example, although the fund manager has extensive decision-making authority and is exposed to variability of benefits from its interest and remuneration, the fund manager's exposure indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 42B

The fund manager has a more substantial pro rata investment in the fund, but does not have any obligation to fund losses beyond that investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

In this example, the other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's investment together with its remuneration could create exposure to variability of benefits from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The greater the magnitude of, and variability associated with, the fund manager's economic interests (considering its remuneration and other interests in aggregate), the more emphasis the fund manager would place on those economic interests in the analysis, and the more likely the fund manager is a principal.

For example, having considered its remuneration and the other factors, the fund manager might consider a 20 per cent investment to be sufficient to conclude that it controls the fund. However, in different circumstances (i.e., if the remuneration or other factors are different), control may arise when the level of investment is different.

Example 42C

The fund manager has a 20 per cent pro rata investment in the fund, but does not have any obligation to fund losses beyond its 20 per cent investment. The fund has a board of directors, all of whose members are independent of the fund manager and are appointed by the other investors. The board appoints the fund manager annually. If the board decided not to renew the fund manager's contract, the services performed by the fund manager could be performed by other managers in the industry.

Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's 20 per cent investment together with its remuneration creates exposure to variability of benefits from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. However, the investors have substantive rights to remove the fund manager—the board of directors provides a mechanism to ensure that the investors can remove the fund manager if they decide to do so.

In this example, the fund manager places greater emphasis on the substantive removal rights in the analysis. Thus, although the fund manager has extensive decision-making authority and is exposed to variability of benefits of the fund from its remuneration and investment, the substantive rights held by the other investors indicate that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 43

Entity A is created to purchase a portfolio of fixed rate asset-backed securities, funded by fixed rate debt instruments and equity instruments. The equity instruments are designed to provide first loss protection to the debt investors and receive any residual benefits from Entity A. The transaction was marketed to potential debt investors as an investment in a portfolio of asset-backed securities with exposure to the credit risk associated with the possible default of the issuers of the asset-backed securities in the portfolio and to the interest rate risk associated with the management of the portfolio. On formation, the equity instruments represent 10 per cent of the value of the assets purchased. A decision maker (the asset manager) manages the active asset portfolio by making investment decisions within the parameters set out in Entity A's prospectus. For those services, the asset manager receives a market-based fixed fee (i.e., 1 per cent of assets under management) and performance-related fees (i.e., 10 per cent of surplus) if Entity A's surpluses exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity instruments of Entity A. The remaining 65 per cent of the equity instruments, and all the debt instruments of Entity A, are held by a large number of widely dispersed unrelated third party investors. The asset manager can be removed, without cause, by a simple majority decision of the other investors.

The asset manager is paid fixed and performance-related fees that are commensurate with the services provided. The remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund. The asset manager has exposure to variability of returns from the activities of the fund because it holds 35 per cent of the equity instruments and from its remuneration.

Although operating within the parameters set out in Entity A's prospectus, the asset manager has the current ability to make investment decisions that significantly affect Entity A's benefits in the form of returns—the removal rights held by the other investors receive little weighting in the analysis because those rights are held by a large number of widely dispersed investors. In this example, the asset manager places greater emphasis on its exposure to variability of returns of the fund from its net asset/equity interest, which is subordinate to the debt instruments. Holding 35 per cent of the equity instruments creates subordinated exposure to losses and rights to returns of Entity A, which are of such significance that it indicates that the asset manager is a principal. Thus, the asset manager concludes that it controls Entity A.

Example 44

A decision maker (the sponsor) sponsors a multi-seller conduit, which issues short-term debt instruments to unrelated third party investors. The transaction was marketed to potential investors as an investment in a portfolio of highly rated medium-term assets with minimal exposure to the credit risk associated with the possible default by the issuers of the assets in the portfolio. Various transferors sell high quality medium-term asset portfolios to the conduit. Each transferor services the portfolio of assets that it sells to the conduit and manages receivables on default for a market-based servicing fee. Each transferor also provides first loss protection against credit losses from its asset portfolio through over-collateralization of the assets transferred to the conduit. The sponsor establishes the terms of the conduit and manages the operations of the conduit for a market-based fee. The fee is commensurate with the services provided. The sponsor approves the sellers permitted to sell to the conduit, approves the assets to be purchased by the conduit and makes decisions about the funding of the conduit. The sponsor must act in the best interests of all investors.

The sponsor is entitled to any residual benefit from the conduit and also provides credit enhancement and liquidity facilities to the conduit. The credit enhancement provided by the sponsor absorbs losses of up to 5 per cent of all of the conduit's assets, after losses are absorbed by the transferors. The liquidity facilities are not advanced against defaulted assets. The investors do not hold substantive rights that could affect the decision-making authority of the sponsor.

Even though the sponsor is paid a market-based fee for its services that is commensurate with the services provided, the sponsor has exposure to variability of benefits from the activities of the conduit because of its rights to any residual benefits from the conduit and the provision of credit enhancement and liquidity facilities (i.e., the conduit is exposed to liquidity risk by using short-term debt instruments to fund medium-term assets). Even though each of the transferors has decision-making rights that affect the value of the assets of the conduit, the sponsor has extensive decision-making authority that gives it the current ability to direct the activities that most significantly affect the benefits from the conduit (i.e., the sponsor established the terms of the conduit, has the right to make decisions about the assets (approving the assets purchased and the transferors of those assets) and the funding of the conduit (for which new investment must be found on a regular basis)). The right to residual benefits from the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of benefits from the activities of the conduit that is different from that of the other investors. Accordingly, that exposure indicates that the sponsor is a principal and thus the sponsor concludes that it controls the conduit. The sponsor's obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.

Accounting requirements: loss of control (paragraphs 52–55A)

IE13A. The following example illustrates the treatment of a sale of an interest in a controlled entity that does not contain an operation.

Example 44A

A controlling entity has a 100 per cent interest in a controlled entity that does not contain an operation. The controlling entity sells 70 per cent of its interest in the controlled entity to an associate in which it has a 20 per cent interest. As a consequence of this transaction, the controlling entity loses control of the controlled entity. The carrying amount of the net assets of the subsidiary is CU100 and the carrying amount of the interest sold is CU70 (CU70 = CU100 × 70%). The fair value of the consideration received is CU210, which is also the fair value of the interest sold. The investment retained in the former controlled entity is an associate accounted for using the equity method and its fair value is CU90. The gain determined in accordance with paragraphs 54–55, before the elimination required by paragraph 55A, is CU200 (CU200 = CU210 + CU90 – CU100). This gain comprises two parts:

(a) The gain (CU140) resulting from the sale of the 70 per cent interest in the controlled entity to the associate. This gain is the difference between the fair value of the consideration received (CU210) and the carrying amount of the interest sold (CU70). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the existing associate. This is 80 per cent of this gain, that is CU112 (CU112 = CU140 × 80%). The remaining 20 per cent of the gain (CU28 = CU140 × 20%) is eliminated against the carrying amount of the investment in the existing associate.

(b) The gain (CU60) resulting from the remeasurement at fair value of the investment directly retained in the former controlled entity. This gain is the difference between the fair value of the investment retained in the former controlled entity (CU90) and 30 per cent of the carrying amount of the net assets of the controlled entity (CU30 = CU100 × 30%). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the new associate. This is 56 per cent (70% × 80%) of the gain, that is CU34 (CU34 = CU60 × 56%). The remaining 44 per cent of the gain CU26 (CU26 = CU60 × 44%) is eliminated against the carrying amount of the investment retained in the former controlled entity.

Investment Entities (paragraphs AG88–AG106)

IE14. The following examples illustrate assessments of whether an entity is an investment entity for the purposes of this Standard.

Example 45

An entity, Limited Partnership, is formed in 20X1 as a limited partnership with a 10-year life. The offering memorandum states that Limited Partnership's purpose is to invest in entities with rapid growth potential, with the objective of realizing capital appreciation over their life. Entity GP (the general partner of Limited Partnership) provides 1 per cent of the capital to Limited Partnership and has the responsibility of identifying suitable investments for the partnership. Approximately 75 limited partners, who are unrelated to Entity GP, provide 99 per cent of the capital to the partnership.

Limited Partnership begins its investment activities in 20X1. However, no suitable investments are identified by the end of 20X1. In 20X2 Limited Partnership acquires a controlling interest in one entity, ABC Corporation. Limited Partnership is unable to close another investment transaction until 20X3, at which time it acquires equity interests in five additional operating companies. Other than acquiring these equity interests, Limited Partnership conducts no other activities. Limited Partnership measures and evaluates its investments on a fair value basis and this information is provided to Entity GP and the external investors.

Limited Partnership has plans to dispose of its interests in each of its investees during the 10 year stated life of the partnership. Such disposals include the outright sale for cash, the distribution of marketable equity securities to investors following the successful public offering of the investees' securities and the disposal of investments to the public or other unrelated entities.

From the information provided, Limited Partnership meets the definition of an investment entity from formation in 20X1 to 31 December 20X3 because the following conditions exist:

(a) Limited Partnership has obtained funds from the limited partners and is providing those limited partners with investment management services;

(b) Limited Partnership's only activity is acquiring equity interests in operating companies with the purpose of realizing capital appreciation over the life of the investments. Limited Partnership has identified and documented exit strategies for its investments, all of which are equity investments; and

(c) Limited Partnership measures and evaluates its investments on a fair value basis and reports this financial information to its investors.

In addition, Limited Partnership displays the following characteristics that are relevant in assessing whether it meets the definition of an investment entity:

(a) Limited Partnership is funded by many investors; and

(b) Ownership in Limited Partnership is represented by units of partnership interests acquired through a capital contribution.

Limited Partnership does not hold more than one investment throughout the period. However, this is because it was still in its start-up period and had not identified suitable investment opportunities.

Example 46

High Technology Fund was formed by Technology Corporation to invest in technology start-up companies for capital appreciation. Technology Corporation holds a 70 per cent interest in High Technology Fund and controls High Technology Fund; the other 30 per cent ownership interest in High Technology Fund is owned by 10 investors. Technology Corporation holds options to acquire investments held by High Technology Fund, at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Technology Corporation. No plans for exiting the investments have been identified by High Technology Fund. High Technology Fund is managed by an investment adviser that acts as agent for the investors in High Technology Fund.

Even though High Technology Fund's purpose is investing for capital appreciation and it provides investment management services to its investors, High Technology Fund is not an investment entity because of the following arrangements and circumstances:

(a) Technology Corporation, the controlling entity of High Technology Fund, holds options to acquire investments in investments held by High Technology Fund if the assets developed by those entities would benefit the operations of Technology Corporation. This provides a benefit in addition to capital appreciation or investment revenue; and

(b) The investment plans of High Technology Fund do not include exit strategies for its investments, which are equity investments. The options held by Technology Corporation are not controlled by High Technology Fund and do not constitute an exit strategy.

Example 47

Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned controlled entities, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its controlled entities report their investment properties at fair value in accordance with IPSAS 16, *Investment Property*. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's activities.

Real Estate Entity does not meet the definition of an investment entity because:

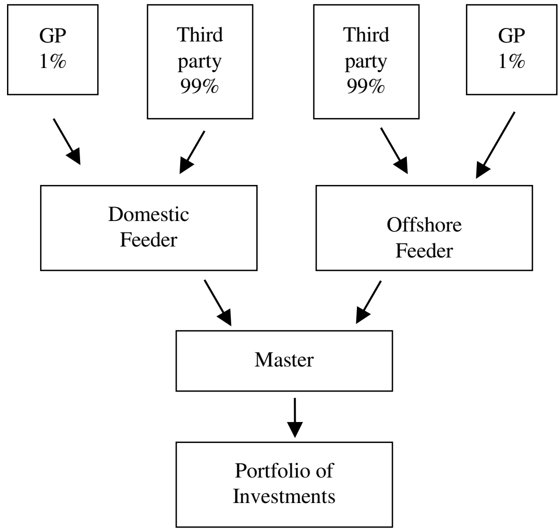
(a) Real Estate Entity has a separate substantial activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment revenue, or both;

(b) The investment plans of Real Estate Entity do not include specified exit strategies for its investments. As a result, Real Estate Entity plans to hold those property investments indefinitely; and

(c) Although Real Estate Entity reports its investment properties at fair value in accordance with IPSAS 16, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

Example 48

An entity, Master Fund, is formed in 20X1 with a 10-year life. The equity of Master Fund is held by two related feeder funds. The feeder funds are established in connection with each other to meet legal, regulatory, tax or similar requirements. The feeder funds are capitalized with a 1 per cent investment from the general partner and 99 per cent from equity investors that are unrelated to the general partner (with no party holding a controlling financial interest).



The purpose of Master Fund is to hold a portfolio of investments in order to generate capital appreciation and investment revenue (such as dividends, interest or rental revenue). The investment objective communicated to investors is that the sole purpose of the Master-Feeder structure is to provide investment opportunities for investors in separate market niches to invest in a large pool of assets. Master Fund has identified and documented exit strategies for the equity and non-financial investments that it holds. Master Fund holds a portfolio of short and medium term debt investments, some of which will be held until maturity and some of which will be traded but Master Fund has not specifically identified which investments will be held and which will be traded. Master Fund measures and evaluates substantially all of its investments, including its debt investments, on a fair value basis. In addition, investors receive periodic financial information, on a fair value basis, from the feeder funds. Ownership in both Master Fund and the feeder funds is represented through units of equity.

Master Fund and the feeder funds each meet the definition of an investment entity. The following conditions exist:

(a) Both Master Fund and the feeder funds have obtained funds for the purpose of providing investors with investment management services;

(b) The Master-Feeder structure's purpose, which was communicated directly to investors of the feeder funds, is investing solely for capital appreciation and investment revenue and Master Fund has identified and documented potential exit strategies for its equity and non-financial investments;

(c) Although the feeder funds do not have an exit strategy for their interests in Master Fund, the feeder funds can nevertheless be considered to have an exit strategy for their investments because Master Fund was formed in connection with the feeder funds and holds investments on behalf of the feeder funds; and

(d) The investments held by Master Fund are measured and evaluated on a fair value basis and information about the investments made by Master Fund is provided to investors on a fair value basis through the feeder funds.

Master Fund and the feeder funds were formed in connection with each other for legal, regulatory, tax or similar requirements. When considered together, they display the following characteristics:

(a) The feeder funds indirectly hold more than one investment because Master Fund holds a portfolio of investments;

(b) Although Master Fund is wholly capitalized by the feeder funds, the feeder funds are funded by many investors who are unrelated to the feeder funds (and to the general partner); and

(c) Ownership in the feeder funds is represented by units of equity interests acquired through a capital contribution.

Example 49

Government Corporation A was established with the principal activity of providing equity finance to both existing and new enterprises. Its investment objective is to seek capital appreciation and returns. All acquisitions are made on that basis. The strategy of the Corporation is to increase the fair value of investments in order to realize a gain on disposal. Management assesses and monitors fair value of the investments on a regular basis. The Corporation regularly disposes of investments when they reach a certain stage of maturity so as to provide funds for ongoing investment opportunities. Any surplus is distributed to the government in the form of dividends.

The Corporation also provides investment related services to the government regarding the government's policies for assisting entities in financial distress. It acts as an agent in managing and implementing some of the government's business incentive schemes. The Corporation is not exposed to any losses or risks as a result of its involvement with these schemes.

The Corporation is an investment entity. It meets all three aspects of the definition of an investment entity.

Comparison with IFRS 10

IPSAS 35, *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of certain IFRSs referred to in IFRS 10. These standards include:

- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*; and
- IFRS 9, *Financial Instruments*.

The main differences between IPSAS 35 and IFRS 10 are as follows:

- Commentary additional to that in IFRS 10 has been included in IPSAS 35 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS 35 uses different terminology, in certain instances, from IFRS 10. The most significant examples are the use of the terms "economic entity," "controlling entity," and "controlled entity". The equivalent terms in IFRS 10 are "group," "parent," and "subsidiary." In many cases the terms "investor" and "investee" used in IFRS 10 are replaced by references to "an entity", "another entity" or "an entity being assessed for control". The terms "investor" and "investee" have been retained in the application guidance on investment entities as they are appropriate in that context.
- IPSAS 35 defines the term "binding arrangement". This term is broader than the term "contractual arrangement", which is used in IFRS 10.
- IFRS 10 identifies typical characteristics of an investment entity separately from the definition of an investment entity. IPSAS 35 does not identify such typical characteristics. However, it does discuss some of these characteristics in the context of the definition of an investment entity.
- IPSAS 35 contains more guidance on non-financial benefits.
- IPSAS 35 does not require that a controlling entity, that is not itself an investment entity, shall consolidate all controlled entities. Instead it requires that such a controlling entity shall present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with IPSAS 35.
- IPSAS 35 contains additional illustrative examples that reflect the public sector context.

IPSAS 36—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS) 28, *Investments in Associates and Joint Ventures* published by the International Accounting Standards Board (IASB). Extracts from IAS 28 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

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IPSAS 36—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 36, *Investments in Associates and Joint Ventures* was issued in January 2015.

Since then, IPSAS 36 has been amended by the following IPSASs:

- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)

Table of Amended Paragraphs in IPSAS 36

Paragraph Affected	How Affected	Affected By
4	Amended	Improvements to IPSASs April 2016
6	Deleted	The Applicability of IPSASs April 2016
7	Deleted	The Applicability of IPSASs April 2016
26	Amended	IPSAS 40 January 2017
31	Amended	IPSAS 40 January 2017
33	Amended	IPSAS 40 January 2017
34A	New	IPSAS 40 January 2017
34B	New	IPSAS 40 January 2017
51A	New	The Applicability of IPSASs April 2016
51B	New	IPSAS 40 January 2017
51C	New	IPSAS 40 January 2017

IPSAS 36—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

CONTENTS

International Public Sector Accounting Standard 36, *Investments in Associates and Joint Ventures*, is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS 36 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in associates and joint ventures.**

3. **This Standard shall be applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.**

4. This Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests. This includes ownership interests arising from investments in the formal equity structure of another entity. A formal equity structure means share capital or an equivalent form of capital, such as units in a property trust. Quantifiable ownership interests may also include ownership interests arising from other investments in which the entity's ownership interest can be measured reliably[1] (for example, interests in a partnership). Where the equity structure of the other entity is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.

5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

6. [Deleted]

7. [Deleted]

[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 discusses the transitional approach to the explanation of reliability.

Definitions

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

An <u>associate</u> is an entity over which the investor has significant influence.

<u>Binding arrangement</u>: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

<u>Consolidated financial statements</u> are the financial statements of an economic entity in which assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

The <u>equity method</u> is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.

A <u>joint arrangement</u> is an arrangement of which two or more parties have joint control.

<u>Joint control</u> is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A <u>joint venture</u> is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A <u>joint venturer</u> is a party to a joint venture that has joint control of that joint venture.

<u>Significant influence</u> is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

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 following terms are defined in either IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, or IPSAS 37, *Joint Arrangements*: benefits, control,

controlled entity, controlling entity, economic entity, investment entity, joint operation, power and separate financial statements.

Binding Arrangement

9. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Significant Influence

10. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this Standard. This Standard applies only to those associates in which an entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.

11. If an entity holds a quantifiable ownership interest and it holds, directly or indirectly (e.g., through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

12. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

    (a) Representation on the board of directors or equivalent governing body of the investee;

    (b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions;

    (c) Material transactions between the entity and its investee;

    (d) Interchange of managerial personnel; or

    (e) Provision of essential technical information.

13. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar

instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e., potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

14. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.

15. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court or an administrator. It could also occur as a result of a binding arrangement.

Equity Method

16. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the surplus or deficit of the investee after the date of acquisition. The investor's share of the investee's surplus or deficit is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's surplus or deficit. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in net assets/equity of the investor.

17. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and,

as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the surplus or deficit of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets/equity and surplus or deficit.

18. When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 19 applies.

19. In some circumstances, an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the benefits associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the benefits.

20. IPSAS 29, *Financial Instruments: Recognition and Measurement* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IPSAS 29. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IPSAS 29.

21. **An investment in an associate or a joint venture accounted for using the equity method shall be classified as a non-current asset.**

Application of the Equity Method

22. **An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 23–25.**

Exemptions from Applying the Equity Method

23. An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exception in paragraph 5 of IPSAS 35 or if all of the following apply:

    (a) The entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with IPSASs, in which controlled entities are consolidated or are measured at fair value in accordance with IPSAS 35.

24. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through surplus or deficit in accordance with IPSAS 29. An investment entity will, by definition, have made this election.

25. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through surplus or deficit in accordance with IPSAS 29 regardless of whether the venture capital organization, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. When an entity has an investment in an associate, a portion of which is held indirectly through an investment entity, the entity shall measure that portion of the investment at fair value through surplus or deficit in accordance with IPSAS 29.

Discontinuing the Use of the Equity Method

26. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**

(a) **If the investment becomes a controlled entity, the entity shall account for its investment in accordance with IPSAS 40, *Public Sector Combinations* and IPSAS 35.**

(b) **If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IPSAS 29. If an entity is precluded by IPSAS 29, paragraphs AG113 and AG114 from measuring the retained interest at fair value, the entity shall measure the retained interest at the carrying amount of the investment at the date that it ceases to be an associate or joint venture and that carrying amount shall be regarded as its cost on initial recognition as a financial asset in accordance with IPSAS 29. The entity shall recognize in surplus or deficit any difference between:**

(i) **The fair value (or, where relevant, the carrying amount) of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and**

(ii) **The carrying amount of the investment at the date the equity method was discontinued.**

(c) **When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognized directly in the entity's net assets/equity in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.**

27. **If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.**

Changes in Ownership Interest

28. If an entity's ownership interest in an associate or a joint venture is reduced, but the investment continues to be classified either as an associate or a joint venture respectively, the entity shall transfer directly to accumulated surpluses or deficits the proportion of the gain or loss that had previously been recognized in net assets/equity relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surpluses or deficits on the disposal of the related assets or liabilities.

Equity Method Procedures

29. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IPSAS 35. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

30. An economic entity's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities, associates or joint ventures, the surplus or deficit and net assets taken into account in applying the equity method are those recognized in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 37–39).

31. Gains and losses resulting from "upstream" and "downstream" transactions involving assets that do not constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. The entity's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture.

32. When downstream transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognized in full by the investor. When upstream transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognize its share in those losses.

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, *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.

34. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognizes in

full in surplus or deficit the portion of the gain or loss on the contribution relating to the monetary or non-monetary assets received.

34A. The gain or loss resulting from a downstream transaction involving assets that constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture is recognized in full in the investor's financial statements.

34B. An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute an operation, as defined in IPSAS 40, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph 53 of IPSAS 35.

35. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

(a) When an entity has included goodwill relating to an associate or a joint venture in the carrying amount of the investment, amortization of that goodwill is not permitted.

(b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the entity's share of the associate or joint venture's surplus or deficit in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made for impairment losses such as for property, plant and equipment or, where relevant, goodwill.

36. **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of an associate or a joint venture the entity either:**

(a) **Obtains, for the purpose of applying the equity method, additional financial information as of the same date as the financial statements of the entity; or**

(b) **Uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements.**

37. **The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**

38. Except as described in paragraph 39, if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

39. **Notwithstanding the requirements in paragraph 38, if an entity has an interest in an associate or a joint venture that is an investment entity, the entity shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities.**

40. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of surplus or deficit after adjusting for the dividends on such shares, whether or not the dividends have been declared.

41. If an entity's share of the deficit of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognizing its share of further deficits. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Deficits recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).

42. After the entity's interest is reduced to zero, additional deficits are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports

surpluses, the entity resumes recognizing its share of those surpluses only after its share of the surpluses equals the share of deficits not recognized.

Impairment Losses

43. After application of the equity method, including recognizing the associate's or joint venture's deficits in accordance with paragraph 41, the entity applies IPSAS 29 to determine whether it is necessary to recognize any additional impairment loss with respect to its net investment in the associate or joint venture.

44. The entity also applies IPSAS 29 to determine whether any additional impairment loss is recognized with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

45. Whenever application of IPSAS 29 indicates that the investment in an associate or a joint venture may be impaired, an entity applies IPSAS 26, *Impairment of Cash-Generating Assets*, and possibly, IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

46. IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. In determining the value in use of the cash-generating investment in accordance with IPSAS 26, an entity estimates:

(a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or

(b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

47. IPSAS 21 requires that, if the recoverable service amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable service amount. Recoverable service amount is the higher of an asset's fair value, less costs to sell and its value in use. Value in use of a non-cash-generating asset is defined as the present value of the asset's remaining service potential. The present value of the remaining service potential may be assessed using the depreciated replacement cost approach, the restoration cost approach or the service units approach, as appropriate.

48. **The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.**

Separate Financial Statements

49. **An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 12 of IPSAS 34, *Separate Financial Statements*.**

Transitional Provisions

50. The transitional provisions for changing from proportionate consolidation to the equity method, or from the equity method to accounting for assets and liabilities in respect of a joint operation are set out in IPSAS 37**.**

Effective Date

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 37, and IPSAS 38, *Disclosure of Interests in Other Entities,* at the same time.**

51A. **Paragraphs 6 and 7 were deleted by *The Applicability of IPSASs,* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

51B. **Paragraph 26 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

51C. **Paragraphs 31 and 33 were amended and paragraphs 34A and 34B added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments for a period earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.**

52. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Withdrawal and Replacement of IPSAS 7 (December 2006)

53. This Standard supersedes IPSAS 7, *Investments in Associates* (December 2006). IPSAS 7 remains applicable until IPSAS 36 is applied or becomes effective, whichever is earlier.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 36.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching its conclusions on IPSAS 36. As this Standard is based on IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011, including amendments up to December 31, 2014) issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 36 departs from the main requirements of IAS 28 (Amended in 2011), or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as Interests in Other Entities. ED 50, *Investments in Associates and Joint Ventures,* was based on IAS 28 (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures.* In January 2015 the IPSASB issued five new IPSASs, including IPSAS 36. These new IPSASs supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7 and IPSAS 8.

BC3. As a result of combining the accounting for associates and joint ventures the title of the Standard was changed to *Investments in Associates and Joint Ventures.*

BC4. In drafting IPSAS 36 the Board did not reconsider all the requirements of IPSAS 7, *Investments in Associates*. The most significant changes resulted from the decision to require the use of the equity method to account for investments in joint ventures and therefore to combine the accounting for investments in associates and joint ventures in one standard. The Board's views on the use of the equity method to account for investments in joint ventures are discussed in the Basis for Conclusions on IPSAS 37.

Scope

Quantifiable Ownership Interests

BC5. The IPSASB noted that the scope of IPSAS 7 had been limited to 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". In developing IPSAS 7 the IPSASB noted that it is unlikely equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure. The IPSASB reflected on the intention of this modification and concluded that it was intended to prevent the inappropriate application of that Standard to interests other than ownership interests.

BC6. In contrast with IPSAS 7 this Standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnership arrangements which do not have formal equity structures, the scope limitation in IPSAS 7 was not appropriate. The IPSASB decided that the scope of this Standard should be limited to "quantifiable ownership interests". Respondents supported this proposal, but considered that disclosure of information about an entity's non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed that IPSAS 38, *Disclosure of Interests in Other Entities* should require the disclosure of non-quantifiable ownership interests.

Temporary Joint Control and Significant Influence

BC7. IPSAS 7 and IPSAS 8, *Interests in Joint Ventures*, did not require application of the equity method or proportionate consolidation when joint control of, or significant influence over, another entity was intended to be temporary. The IPSASB noted that the IASB had removed these exemptions from the equivalent IFRSs in 2003, as a consequence of issuing IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.*

BC8. The IPSASB noted that in developing IPSAS 35, *Consolidated Financial Statements*, it had considered the related issue of whether to incorporate a temporary control exemption in that Standard, and had agreed not to do so. Accordingly the IPSASB decided not to provide exemptions based on temporary joint control or temporary significant influence in IPSAS 36.

Significant Influence

BC9. The Standard establishes a presumption that an entity has significant influence over an investee if an entity holds an ownership interest in the form of a shareholding or other formal equity structure and holds, directly, or indirectly, (e.g., through controlled entities) 20 per cent or more of the voting power of an investee. The IPSASB noted that the use of 20 percent in establishing a presumption of significant influence came initially from IAS 28 and had also been used in IPSAS 7 (December 2006). In deciding to retain this presumption in the Standard, the IPSASB noted that it was unaware of any public sector reason to use an amount other than 20 per cent.

Uniform Reporting Dates

BC10. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the entity and associate or joint venture of the entity. The IPSASB noted that IAS 28 requires that the most recent available financial statements of the associate or joint venture be used by an entity in applying the equity method and requires adjustments when they are not the same. In addition, IAS 28 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Investment Entities

BC11. Some respondents to ED 50 requested that the IPSASB clarify the application of the equity method by investment entities and by investors with investments in an associate or a joint venture that is an investment entity. Accordingly the IPSASB:

(a) Clarified that an investment entity will, by definition, have elected to account for investments in associates and joint ventures at fair value through surplus or deficit in accordance with IPSAS 29; and

(b) Required that an entity with an interest in an investment entity associate or an investment entity joint venture, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or investment entity joint venture to its interests in controlled entities.

BC12. The IPSASB noted that IASB constituents had also sought clarification of some aspects of the accounting for investments in investment entity associates and investment entity joint ventures. The IASB issued ED 2014/2 *Investment Entities–Applying the Consolidation Exception(Proposed amendments to IFRS 10 and IAS 28)* in June 2014 and subsequently issued *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* in December 2014.The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

BC13. At the time that IPSAS 36 was being developed, the IASB amended IFRS 10 and IAS 28 so that the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3, *Business Combinations*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)* in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36 on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards-level requirements for public sector combinations.

BC14. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the sale or contribution of assets between an investor and its associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 36 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute an operation.* The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 36.

BC15. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 36, to be applied from a date to be determined by the IPSASB.

Revision of IPSAS 36 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC16. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Comparison with IAS 28 (Amended in 2011)

IPSAS 36, *Investments in Associates and Joint Ventures* is drawn primarily from IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IAS 28 have therefore been replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 36 and IAS 28 (Amended in 2011) are as follows:

- Commentary additional to that in IAS 28 (Amended in 2011) has been included in IPSAS 36 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 36 uses different terminology, in certain instances, from IAS 28 (Amended in 2011). The most significant examples are the use of the terms "net assets/equity," "economic entity," "controlling entity," "controlled entity" and "revenue" in IPSAS 36. The equivalent terms in IAS 28 (Amended in 2011) are "equity," "group," "parent," "subsidiary" and "income."
- IPSAS 36 applies to all investments where the investor has a quantifiable ownership interest. IAS 28 (Amended in 2011) does not contain a similar requirement. However, it is unlikely that equity accounting could be applied unless there was a quantifiable ownership interest.
- Where an entity is precluded by IPSAS 29 from measuring the retained interest in a former associate or joint venture at fair value, IPSAS 36 permits an entity to use carrying amount as the cost on initial recognition of the financial asset. IAS 28 (Amended in 2011) requires that the retained interest be measured at fair value.
- IPSAS 36 requires that an entity with an interest in an associate or a joint venture that is an investment entity, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities. IAS 28 (Amended in 2011) permits an entity with an interest in an associate or a joint venture that is an investment entity to retain the fair value measurement applied by that investment entity associate or joint venture.

IPSAS 37—JOINT ARRANGEMENTS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS) 11, *Joint Arrangements* published by the International Accounting Standards Board (IASB). Extracts from IFRS 11 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

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IPSAS 37—JOINT ARRANGEMENTS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 37, *Joint Arrangements* was issued in January 2015.

Since then, IPSAS 37 has been amended by the following IPSASs:

- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in IPSAS 37

Paragraph Affected	How Affected	Affected By
5	Deleted	The Applicability of IPSASs April 2016
6	Deleted	The Applicability of IPSASs April 2016
24A	New	IPSAS 40 January 2017
32	Amended	IPSAS 40 January 2017
41A	New	IPSAS 40 January 2017
42A	New	The Applicability of IPSASs April 2016
42B	New	IPSAS 40 January 2017
42C	New	IPSAS 40 January 2017
AG33A	New	IPSAS 40 January 2017
AG33B	New	IPSAS 40 January 2017
AG33C	New	IPSAS 40 January 2017
AG33D	New	IPSAS 40 January 2017

January 2015

IPSAS 37—JOINT ARRANGEMENTS

CONTENTS

International Public Sector Accounting Standard 37, *Joint Arrangements*, is set out in paragraphs 1–44. All the paragraphs have equal authority. IPSAS 37 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., joint arrangements).

2. To meet the objective in paragraph 1, this Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.**

4. **This Standard shall be applied by all entities that are a party to a joint arrangement.**

5. [Deleted]

6. [Deleted]

Definitions

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

   <u>Binding arrangement</u>: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

   A <u>joint arrangement</u> is an arrangement of which two or more parties have joint control.

   <u>Joint control</u> is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

   A <u>joint operation</u> is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

   A <u>joint operator</u> is a party to a joint operation that has joint control of that joint operation.

A <u>joint venture</u> is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A <u>joint venturer</u> is a party to a joint venture that has joint control of that joint venture.

A <u>party to a joint arrangement</u> is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

A <u>separate vehicle</u> is a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.

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 following terms are defined in IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* or IPSAS 36, *Investments in Associates and Joint Ventures*: benefits, control, equity method, power, protective rights, relevant activities, separate financial statements and significant influence.

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Joint Arrangements (see paragraphs AG2–AG33)

9. **A joint arrangement is an arrangement of which two or more parties have joint control.**

10. **A joint arrangement has the following characteristics:**

    (a) **The parties are bound by a binding arrangement (see paragraphs AG2–AG4).**

    (b) **The binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 12–18).**

11. **A joint arrangement is either a joint operation or a joint venture.**

Joint Control

12. **Joint control is the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous**

consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement.

13. **An entity that is a party to an arrangement shall assess whether the binding arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the benefits from the arrangement (i.e., the relevant activities).**

14. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.

15. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.

16. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Standard distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

17. **An entity will need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs AG5–AG11).**

18. **If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.**

Types of Joint Arrangement

19. **An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.**

20. **An entity applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).**

21. Sometimes the parties are bound by a framework agreement that sets up the general terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.

22. **If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.**

Financial Statements of Parties to a Joint Arrangement (see paragraphs AG33A–AG37)

Joint Operations

23. **A joint operator shall recognize in relation to its interest in a joint operation:**

    (a) **Its assets, including its share of any assets held jointly;**

    (b) **Its liabilities, including its share of any liabilities incurred jointly;**

    (c) **Its revenue from the sale of its share of the output arising from the joint operation;**

    (d) **Its share of the revenue from the sale of the output by the joint operation; and**

    (e) **Its expenses, including its share of any expenses incurred jointly.**

24. **A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSASs applicable to the particular assets, liabilities, revenues and expenses.**

24A. **When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations,* it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSASs, that do not conflict with the guidance in this Standard, and disclose the information that is required in those IPSASs in relation to acquisitions. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes an operation. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs AG33A–AG33D.**

25. The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs AG34–AG37.

26. **A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 23–25 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the IPSASs applicable to that interest.**

Joint Ventures

27. **A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IPSAS 36, *Investments in Associates and Joint Ventures,* unless the entity is exempted from applying the equity method as specified in that Standard.**

28. **A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with the IPSASs dealing with financial instruments, being IPSAS 28, *Financial Instruments: Presentation,* IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IPSAS 36.**

Separate Financial Statements

29. **In its separate financial statements, a joint operator or joint venturer shall account for its interest in:**

    (a) **A joint operation in accordance with paragraphs 23–25; and**

    (b) **A joint venture in accordance with paragraph 12 of IPSAS 34.**

30. **In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:**

    (a) **A joint operation in accordance with paragraph 26; and**

    (b) **A joint venture in accordance with IPSAS 29, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 12 of IPSAS 34.**

Transitional Provisions

31. **Notwithstanding the requirements of paragraph 33 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3, for the annual period immediately preceding the first annual period for which this Standard is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.**

Joint Ventures—Transition from Proportionate Consolidation to the Equity Method

32. **When changing from proportionate consolidation to the equity method, an entity shall recognize its investment in the joint venture as at the beginning of the immediately preceding period. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.**

33. **The opening balance of the investment determined in accordance with paragraph 32 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 43–48 of IPSAS 36 to the opening balance of the investment to assess whether the investment is impaired and shall recognize any impairment loss as an adjustment to accumulated surplus or deficit at the beginning of the immediately preceding period.**

34. **If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognize the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognize the corresponding liability but it shall adjust accumulated surplus or deficit at the beginning of the immediately preceding period. The entity shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the beginning of the immediately preceding period and at the date at which this Standard is first applied.**

35. **An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning**

of the immediately preceding period. That disclosure shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs 32–36.

36. **After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with IPSAS 36.**

Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities

37. **When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the immediately preceding period, derecognize the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 41 of IPSAS 36 and recognize its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.**

38. **An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the binding arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the immediately preceding period on the basis of the information used by the entity in applying the equity method.**

39. **Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 41 of IPSAS 36 and the net amount of the assets and liabilities, including any goodwill, recognized shall be:**

    (a) **Offset against any goodwill relating to the investment with any remaining difference adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is higher than the investment (and any other items that formed part of the entity's net investment) derecognized.**

    (b) **Adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is lower than the investment (and any other items that formed part of the entity's net investment) derecognized.**

40. **An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted against accumulated surplus or deficit, at the beginning of the immediately preceding period.**

Transitional Provisions in an Entity's Separate Financial Statements

41. **An entity that, in accordance with paragraph 58 of IPSAS 6, *Consolidated and Separate Financial Statements,* was previously accounting in its separate financial statements for its interest in a joint operation as an investment using the equity method, at cost or in accordance with IPSAS 29 shall:**

    (a) **Derecognize the investment and recognize the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs 37–39.**

    (b) **Provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted in accumulated surplus or deficit, at the beginning of the immediately preceding period.**

Accounting for acquisitions of interests in joint operations

41A. IPSAS 40, *Public Sector Combinations*, issued in January 2017, added paragraphs 24A, 42B, and AG33A–AG33D. An entity shall apply those amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute operations, as defined in IPSAS 40, for those acquisitions occurring from the beginning of the first period in which it applies those amendments. Consequently, amounts recognized for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.

Effective Date

42. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 36 and IPSAS 38, *Disclosure of Interests in Other Entities*, at the same time.**

42A. **Paragraphs 5 and 6 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

42B. **Paragraphs 24A, 41A and AG33A–AG33D were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

42C. **Paragraph 32 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

43. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Withdrawal and Replacement of IPSAS 8 (December 2006)

44. This Standard supersedes IPSAS 8, *Interests in Joint Ventures* (December 2006). IPSAS 8 remains applicable until IPSAS 37 is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 37.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 37.

Joint Arrangements

Binding Arrangement (paragraph 8)

AG2. Consistent with the definition of binding arrangements in this Standard, this discussion of binding arrangements is also relevant to enforceable arrangements created by legislative or executive authority.

AG3. When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the binding arrangement, or some aspects of the binding arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

AG4. The binding arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The binding arrangement generally deals with such matters as:

(a) The purpose, activity and duration of the joint arrangement.

(b) How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.

(c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the binding arrangement establishes joint control of the arrangement (see paragraphs AG5–AG11).

(d) The capital or other contributions required of the parties.

(e) How the parties share assets, liabilities, revenues, expenses or surplus or deficit relating to the joint arrangement.

Joint Control (paragraphs 12–18)

AG5. In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. IPSAS 35, *Consolidated Financial Statements*, defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable benefits from their involvement with the arrangement and have the ability to affect those benefits through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the benefits from the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

AG6. After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgment.

AG7. Sometimes the decision-making process that is agreed upon by the parties in their binding arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the binding arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

AG8. In other circumstances, the binding arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the binding arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

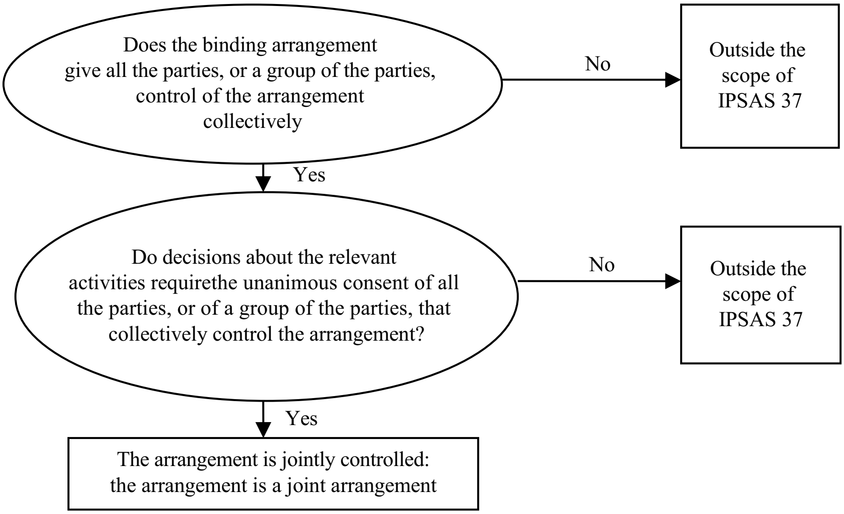
Application Examples
Example 1 Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their binding arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.
Example 2 Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e., either A and B or A and C). In such a situation, to be a joint arrangement the binding arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.
Example 3 Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the binding arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

AG9. The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about

the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.

AG10. A binding arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.

Assessing Joint Control



AG11. When an arrangement is outside the scope of IPSAS 37, *Joint Arrangements*, an entity accounts for its interest in the arrangement in accordance with relevant IPSASs, such as IPSAS 35, IPSAS 36, *Investments in Associates and Joint Ventures* or IPSAS 29, *Financial Instruments: Recognition and Measurement*.

Types of Joint Arrangement (paragraphs 19–22)

AG12. Joint arrangements are established for a variety of purposes (e.g., as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.

AG13. Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.

AG14. The classification of joint arrangements required by this Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of operations. This Standard classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs AG16–AG33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a Joint Arrangement

AG15. As stated in paragraph AG14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

(a) The structure of the joint arrangement (see paragraphs AG16–AG21).

(b) When the joint arrangement is structured through a separate vehicle:

    (i) The legal form of the separate vehicle (see paragraphs AG22–AG24);

    (ii) The terms of the binding arrangement (see paragraphs AG25–AG28); and

    (iii) When relevant, other facts and circumstances (see paragraphs AG29–AG33).

Structure of the Joint Arrangement

Joint Arrangements not Structured Through a Separate Vehicle

AG16. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

AG17. The binding arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to deliver services or manufacture a product together, with each party being responsible for specific areas and each using its own assets and incurring its own liabilities. The binding arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognizes in its financial statements the assets and liabilities used for the specific task, and recognizes its share of the revenues and expenses in accordance with the binding arrangement.

AG18. In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the binding arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses in accordance with the binding arrangement.

Joint Arrangements Structured through a Separate Vehicle

AG19. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

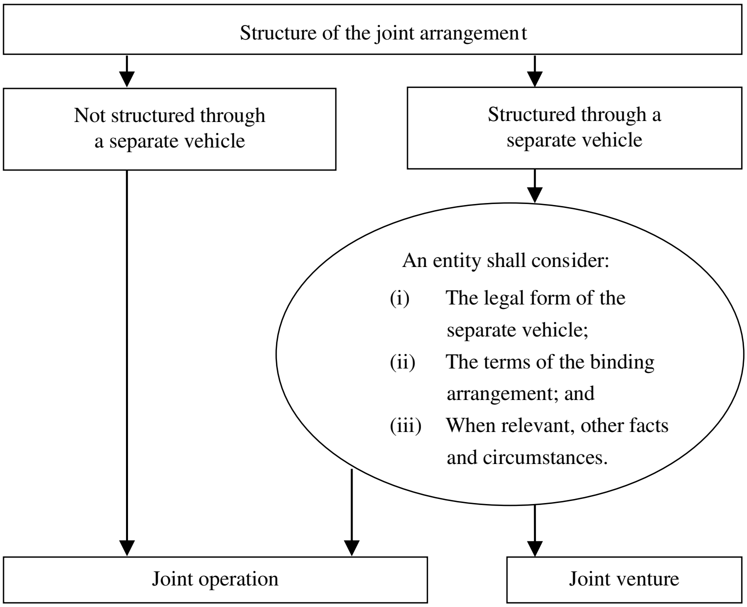
AG20. Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement, that are held in the separate vehicle.

AG21. As stated in paragraph AG15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the binding arrangement and, when relevant, any other facts and circumstances give them:

(a) Rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation); or

(b) Rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

Classification of a Joint Arrangement: Assessment of the Parties' Rights and Obligations Arising from the Arrangement



The Legal Form of the Separate Vehicle

AG22. The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.

AG23. For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their binding arrangement (see paragraphs AG25–AG28) and, when relevant, other facts and circumstances (see paragraphs AG29–AG33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.

AG24. The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

Assessing the Terms of the Binding Arrangement

AG25. In many cases, the rights and obligations agreed to by the parties in their binding arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.

AG26. In other cases, the parties use the binding arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

Application Example

Example 4

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement.

However, the parties modify the features of the corporation through their binding arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such binding modifications to the features of a corporation can cause an arrangement to be a joint operation.

AG27. The following table compares common terms in binding arrangements of parties to a joint operation and common terms in binding arrangements of parties to a joint venture. The examples of the binding terms provided in the following table are not exhaustive.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
The terms of the binding arrangement	The binding arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
Rights to assets	The binding arrangement establishes that the parties to the joint arrangement share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The binding arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The binding arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in proportion to the parties' ownership interest in the	The binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.
		The binding arrangement establishes that the parties to the joint arrangement are liable to the arrangement

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
	arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.
	The binding arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The binding arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
Revenues, expenses, surplus or deficit	The binding arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the binding arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the surplus or deficit relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement establishes each party's share in the surplus or deficit relating to the activities of the arrangement.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
Guarantees	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

AG28. When the binding arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs AG29–AG33) for the purposes of classifying the joint arrangement.

Assessing Other Facts and Circumstances

AG29. When the terms of the binding arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

AG30. A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The binding terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

AG31. When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the service potential or economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

AG32. The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

Application Example

Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The binding arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the binding arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and circumstances are relevant:

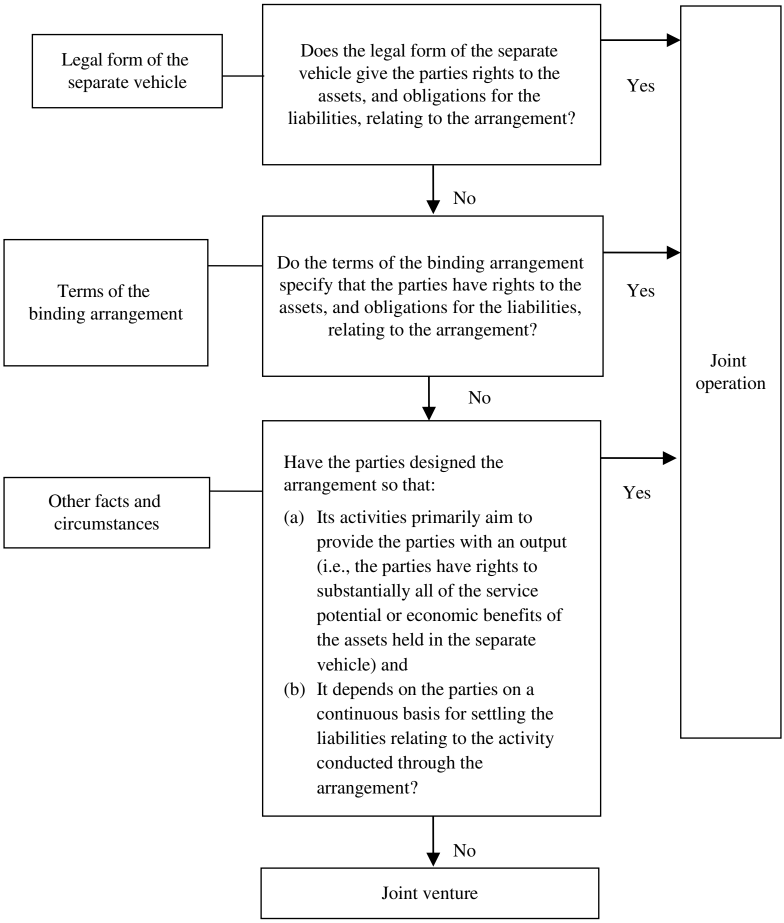
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the service potential or economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the binding arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

AG33. The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

Classification of a Joint Arrangement Structured Through a Separate Vehicle



Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

Accounting for acquisitions of interests in joint operations

AG33A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSASs, that do not conflict with the guidance in this Standard and disclose the information required by those IPSASs in relation to acquisitions. The principles on acquisition accounting that do not conflict with the guidance in this Standard include but are not limited to:

(a) Measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in IPSAS 40 and other IPSASs;

(b) Recognizing acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognized in accordance with IPSAS 28 and IPSAS 29;

(c) Recognizing the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and

(d) Testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by IPSAS 26, *Impairment of Cash-Generating Assets*, for goodwill acquired in an acquisition.

AG33B. Paragraphs 24A and AG33A also apply to the formation of a joint operation if, and only if, an existing operation, as defined in IPSAS 40, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute operations to the joint operation on its formation.

AG33C. A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

AG33D. Paragraphs 24A and AG33A–AG33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

Accounting for Sales or Contributions of Assets to a Joint Operation

AG34. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognize gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

AG35. When such transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognized fully by the joint operator.

Accounting for Purchases of Assets from a Joint Operation

AG36. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognize its share of the gains and losses until it resells those assets to a third party.

AG37. When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognize its share of those losses.

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 37.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 37. As this Standard is based on IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014), issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 37 departs from the main requirements of IFRS 11.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 51, *Joint Arrangements*, was based on IFRS 11, *Joint Arrangements*, having regard to the relevant public sector modifications in IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 37. These new IPSASs supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8.

Classification of Joint Arrangements

BC3. IPSAS 37 classifies joint arrangements as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets. This differs from IPSAS 8 which referred to three types of arrangements, being jointly controlled entities, jointly controlled operations and jointly controlled assets. The IPSASB agreed that the classification of joint arrangements in IPSAS 37 should be consistent with IFRS 11.

Elimination of Accounting Option

BC4. IPSAS 37 requires that a joint venturer account for its interest in a joint venture using the equity method. Previously IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. The IPSASB acknowledged the IASB's rationale for removing proportionate consolidation as a method for accounting for interests in joint ventures and agreed that the accounting treatments permitted by IPSAS 37 should be consistent with IFRS 11.

BC5. The IASB's reasons for removing proportionate consolidation as a method for accounting for interests in joint ventures included the following:

(a) The equity method is the most appropriate method to account for joint ventures because it is a method that accounts for an entity's interest in the net assets of an investee.

(b) The approach in IFRS 11 is consistent with the IASB's view of what constitutes the economic substance of an entity's interests in joint arrangements.

(c) IFRS 11 will require consistent accounting for arrangements with similar rights.

(d) The IASB did not consider that the elimination of proportionate consolidation would cause a loss of information for users of financial statements (having regard to the disclosure requirements in IFRS 12, *Disclosure of Interests in Other Entities*).

BC6. The IPSASB took the view there were no public sector differences that warranted a different approach to that taken by the IASB.

Acquisition of an Interest in a Joint Operation

BC7. At the time that IPSAS 37 was being developed, the IASB sought feedback on proposals to amend IFRS 11 by adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, as defined in IFRS 3, *Business Combinations*. The IASB issued *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)* in May 2014. The IPSASB agreed not to incorporate such guidance in IPSAS 37 on the grounds that it would be more appropriate to consider such guidance in the context of drafting standards-level requirements for public sector combinations.

BC8. At the time the IPSASB developed IPSAS 40, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the acquisition of an interest in a joint operation that constitutes an operation. The IPSASB reviewed the guidance issued by the IASB in Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) and did not identify a public sector reason to depart from that guidance. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 37.

Revision of IPSAS 37 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC9. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term “GBE” with the term “commercial public sector entities”, where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

ILLUSTRATIVE EXAMPLES

CONTENTS

Illustrative Examples

These examples accompany, but are not part of, IPSAS 37.

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying IPSAS 37 in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 37.

Example 1 – Construction Services

IE2. A and B (the parties) are two entities whose activities include the provision of many types of public and private construction services. Entity A is a private sector entity. Entity B is government owned. They set up a binding arrangement to work together for the purpose of fulfilling a contract with a government for the design and construction of a road between two cities. The binding arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road. The joint arrangement will have no further involvement once the road has been completed. The road will be transferred to the government at that point.

IE3. The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

IE4. The binding arrangement between A and B additionally establishes that:

(a) The rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;

(b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and

(c) The surplus or deficit resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

IE5. For the purposes of co-ordinating and overseeing the activities, A and B appoint a project manager, who will be an employee of one of the parties. After a specified time, the role of the project manager will rotate to an employee of the other party. A and B agree that the activities will be executed by the employees on a "no gain or loss" basis.

IE6. In accordance with the terms specified in the contract with the government, entity Z invoices the construction services to the government on behalf of the parties.

Analysis

IE7. The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their binding arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation. It is not a service concession arrangement.

IE8. A and B each recognize in their financial statements their share of the assets (e.g., property, plant, and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g., accounts payable to third parties) on the basis of their agreed participation share. Each also recognizes its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

Example 2 – Service Centre Operated Jointly

IE9. Two entities (the parties) set up a separate vehicle (entity X) for the purpose of establishing and operating a joint service center. The binding arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the allocation of office space to services, managing the car park, maintaining the center and its equipment, such as lifts, building the reputation of the center and managing the client base for the center.

IE10. The terms of the binding arrangement are such that:

(a) Entity X owns the service center. The binding arrangement does not specify that the parties have rights to the service center.

(b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.

(c) The parties have the right to sell or pledge their interests in entity X.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity X.

Analysis

IE11. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity X.

IE12. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE13. The parties recognize their rights to the net assets of entity X as investments and account for them using the equity method.

Example 3 – Joint Provision of Assisted Living Services

IE14. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. Entity X and entity Y establish a separate company (entity Z). The legal form of the company confers the rights to the assets and obligations for liabilities to the company itself. The agreement between entity X and entity Y requires all decisions be made jointly. The agreement also confirms:

(a) Entity X will provide the assisted living services. Entity Y will construct the premises.

(b) The assets of the arrangement are owned by entity Z, the company. Neither party will be able to sell, pledge, transfer or otherwise mortgage the assets of entity Z.

(c) The liability of the parties is limited to any unpaid capital of entity Z.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity Z.

(e) Profits of entity Z will be distributed to entity X and entity Y 40:60, being the parties' respective interests in the arrangement.

Analysis

IE15. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity Z.

IE16. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, or that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE17. The parties recognize their rights to the net assets of entity Z as investments and account for them using the equity method.

Variation

IE18. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. The agreement between entity X and entity Y requires all decisions to be made jointly. The agreement confirms:

(a) Entity X will supply operational assets including office equipment, motor vehicles and furniture and fittings for the assisted living premises.

(b) Entity Y will construct the premises and will continue to own the premises. Entity Y will be responsible for the ongoing maintenance of the premises. Entity Y cannot sell the premises without first offering entity X the right to purchase the premises. Entity Y is entitled to 100% of any gain on eventual sale of the premises.

(c) The services will be delivered through a new entity, entity Z, established for this purpose.

(d) Each party will pay for 50% of the expenses for operating the services.

(e) Any profits from providing the assisted living services will be shared equally between entity X and entity Y.

(f) Entity X will be responsible for managing staff and for any liabilities arising from personal grievance claims and health and safety issues.

(g) Entity Y will be responsible for any liabilities to make good any defects in the premises or alterations to the premises required to meet health and safety codes and changes in those codes.

Analysis of Variation

IE19. Although the services are delivered through a separate vehicle, entity X and entity Y continue to own the assets used to provide the services. The joint arrangement is a joint operation.

IE20. Entity X and entity Y each recognize in their financial statements their own assets and liabilities. They also recognize their share of the revenue and expenses resulting from the provision of assisted living services through entity Z.

Example 4 – Joint Manufacturing and Distribution of a Product

IE21. Entities A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.

IE22. The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:

(a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the binding arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.

(b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the binding arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE23. In addition, the framework agreement establishes:

(a) That the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;

(b) The commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.

(c) That any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

Analysis

IE24. The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.

IE25. The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the binding arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:

(a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the service potential or economic benefits of the assets of the manufacturing arrangement.

(b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfill the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.

IE26. The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the binding arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE27. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.

IE28. A and B each recognize in their financial statements their share of the assets (e.g., property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (e.g., accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognizes its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.

IE29. The parties recognize their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Variation

IE30. Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.

IE31. The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.

IE32. The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

Analysis of Variation

IE33. The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the binding terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.

IE34. The variation has no effect on the classification of the distribution arrangement as a joint venture.

IE35. The parties recognize their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Example 5 – Bank Operated Jointly

IE36. Bank A, a government owned bank, and bank B, a privately owned bank, (the parties) agreed to combine certain corporate, investment banking, asset management and service activities by establishing a separate vehicle (bank C). Both parties expect the arrangement to benefit them in different ways. Bank A believes that the arrangement could enable it to achieve its strategic plans to improve its profitability through an enlarged offering of products and services. Bank B expects the arrangement to reinforce its offering in financial savings and market products.

IE37. The main feature of bank C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). Banks A and B each have a 40 per cent ownership interest in bank C, with the remaining 20 per cent being listed and widely held. The agreement between bank A and bank B establishes joint control of the activities of bank C.

IE38. In addition, bank A and bank B entered into an irrevocable agreement under which, even in the event of a dispute, both banks agree to provide the necessary funds in equal amount and, if required, jointly and severally, to ensure that bank C complies with the applicable legislation and banking regulations, and honors any commitments made to the banking authorities. This commitment represents the assumption by each party of 50 per cent of any funds needed to ensure that bank C complies with legislation and banking regulations.

Analysis

IE39. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of bank C, but it establishes that the parties have rights to the net assets of bank C. The commitment by the parties to provide support if bank C is not able to comply with the applicable legislation and banking regulations is not by itself a determinant that the parties have an obligation for the liabilities of bank C. There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets of bank C and that the parties have an obligation for the liabilities of bank C. The joint arrangement is a joint venture.

IE40. Both banks A and B recognize their rights to the net assets of bank C as investments and account for them using the equity method.

Example 6 – Oil and Gas Exploration, Development and Production Activities

IE41. Entities A and B (the parties) set up a separate vehicle (entity H) and a Joint Operating Agreement (JOA) to undertake oil and gas exploration, development and production activities in country O. The main feature of entity H's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE42. Country O has granted entity H permits for the oil and gas exploration, development and production activities to be undertaken in a specific assigned block of land (fields).

IE43. The agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarized below.

Agreement

IE44. The board of entity H consists of a director from each party. Each party has a 50 per cent holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

IE45. The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.

IE46. The Operating Committee approves the budgets and work programs relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programs.

IE47. The JOA specifies that the rights and obligations arising from the exploration, development and production activities shall be shared among the parties in proportion to each party's holding in entity H. In particular, the JOA establishes that the parties share:

(a) The rights and the obligations arising from the exploration and development permits granted to entity H (e.g., the permits, rehabilitation liabilities, any royalties and taxes payable);

(b) The production obtained; and

(c) All costs associated with all work programs.

IE48. The costs incurred in relation to all the work programs are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

Analysis

IE49. The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets (e.g., exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (e.g., all costs and obligations arising from the work programs) that are held in entity H. The joint arrangement is a joint operation.

IE50. Both entity A and entity B recognize in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognizes its share of the revenue (from the sale of their share of the production) and its share of the expenses.

Example 7 – Liquefied Natural Gas Arrangement

IE51. Entity A owns an undeveloped gas field that contains substantial gas resources. Entity A determines that the gas field will be economically viable only if the gas is sold to customers in overseas markets. To do so, a liquefied natural gas (LNG) facility must be built to liquefy the gas so that it can be transported by ship to the overseas markets.

IE52. Entity A enters into a joint arrangement with entity B in order to develop and operate the gas field and the LNG facility. Under that arrangement, entities A and B (the parties) agree to contribute the gas field and cash, respectively, to a new separate vehicle, entity C. In exchange for those contributions, the parties each take a 50 per cent ownership interest in entity C. The main feature of entity C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE53. The binding arrangement between the parties specifies that:

(a) Entities A and B must each appoint two members to the board of entity C. The board of directors must unanimously agree the strategy and investments made by entity C.

(b) Day-to-day management of the gas field and LNG facility, including development and construction activities, will be undertaken by the staff of entity B in accordance with the directions jointly agreed by the parties. Entity C will reimburse B for the costs it incurs in managing the gas field and LNG facility.

(c) Entity C is liable for taxes and royalties on the production and sale of LNG as well as for other liabilities incurred in the ordinary course of business, such as accounts payable, site restoration and decommissioning liabilities.

(d) Entities A and B have equal shares in the surplus from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends or similar distributions made by entity C.

IE54. The binding arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.

IE55. The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of the gas field and construction of the LNG facility. The estimated total cost of the development and construction is CU1,000 million.[1]

[1] In this example monetary amounts are denominated in 'currency units (CU)'.

IE56. The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to entities A and B only if entity C defaults on the loan arrangement during the development of the field and construction of the LNG facility. The lending syndicate agrees that it will not have recourse to entities A and B once the LNG facility is in production because it has assessed that the cash inflows that entity C should generate from LNG sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to entities A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

Analysis

IE57. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity C, but they establish that the parties have rights to the net assets of entity C. The recourse nature of the financing arrangement during the development of the gas field and construction of the LNG facility (i.e., entities A and B providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (i.e., the loan is a liability of entity C). Entities A and B have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the development and construction phase.

IE58. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets of entity C and that the parties have an obligation for the liabilities of entity C. The joint arrangement is a joint venture.

IE59. The parties recognize their rights to the net assets of entity C as investments and account for them using the equity method.

Example 8—Accounting for acquisitions of interests in joint operations in which the activity constitutes an operation

IE60. Municipalities A, B and C have joint control of Joint Operation D whose activity constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations*.

IE61. Municipality E acquires municipality A's 40 per cent ownership interest in Joint Operation D at a cost of CU300 and incurs acquisition-related costs of CU50.

IE62. The binding arrangement between the parties that Municipality E joined as part of the acquisition establishes that Municipality E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Municipality E's share in the assets and liabilities related to Joint Operation D as established in the binding arrangement between the parties:

	Municipality E's share in the assets and liabilities related to Joint Operation D
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%
Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

IE63. Municipality E recognizes in its financial statements its share of the assets and liabilities resulting from the contractual arrangement (see paragraph 23).

IE64. It applies the principles on acquisition accounting in IPSAS 40 and other IPSASs for identifying, recognizing, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint Operation D. This is because Municipality E acquired an interest in a joint operation in which the activity constitutes an operation (see paragraph 24A).

IE65. However, Municipality E does not apply the principles on acquisition accounting in IPSAS 40 and other IPSASs that conflict with the guidance in this Standard. Consequently, in accordance with paragraph 23, Municipality E recognizes, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the binding arrangement. Municipality E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.

IE66. IPSAS 40 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, a reacquired right recognized as an intangible asset is measured on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Such measurement does not conflict with this Standard and thus those requirements apply.

IE67. Consequently, Municipality E determines the fair value, or other measure specified in IPSAS 40, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value or other measure specified by IPSAS 40 of Municipality E's shares in the identifiable assets and liabilities related to Joint Operation D:

	Fair value or other measure specified by IPSAS 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D **(CU)**
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70
Retirement benefit obligations	(12)
Accounts payable	(48)
Contingent liabilities	(52)
Deferred tax liability (see the international or national standard dealing with income taxes)	(24)
Net assets	**228**

IE68. In accordance with IPSAS 40, the excess of the consideration transferred over the amount allocated to Municipality E's shares in the net identifiable assets is recognized as goodwill:

Consideration transferred	CU300
Municipality E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	CU228
Goodwill	**CU72**

IE69. Acquisition-related costs of CU50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognized as expenses in surplus or deficit in the period that the costs are incurred and the services are received (see paragraph 113 of IPSAS 40).

Example 9—Contributing the right to use know-how to a joint operation in which the activity constitutes an operation

IE70. Entities A and B are two entities whose activities are the construction of high performance batteries for diverse applications.

IE71. In order to develop batteries for electric vehicles they set up a binding arrangement (Joint Operation Z) to work together. Entities A and B share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes an operation, as defined in IPSAS 40.

IE72. After several years, the joint operators (Entities A and B) concluded that it is feasible to develop a battery for electric vehicles using Material M. However, processing Material M requires specialist know-how and thus far, Material M has only been used in electricity generation.

IE73. In order to get access to existing know-how in processing Material M, Entities A and B arrange for Entity C to join as another joint operator by acquiring an interest in Joint Operation Z from Entities A and B and becoming a party to the binding arrangements.

IE74. Entity C's activity so far has been solely the generation of electricity. It has long-standing and extensive knowledge in processing Material M.

IE75. In exchange for its share in Joint Operation Z, Entity C pays cash to Entities A and B and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Entity C seconds some of its employees who are experienced in processing Material M to Joint Operation Z. However, Entity C does not transfer control of the know-how to Entities A and B or Joint Operation Z because it retains all the rights to it. In particular, Entity C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Entity A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE76. The fair value of Entity C's know-how on the date of the acquisition of the interest in the joint operation is CU1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Entity C was CU300.

Analysis

IE77. Entity C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40.

IE78 In accounting for the acquisition of its interest in the joint operation, Entity C applies all the principles on acquisition accounting in IPSAS 40 and other IPSASs that do not conflict with the guidance in this Standard (see paragraph 24A). Entity C therefore recognizes in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE79. Entity C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Entity C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to Entities A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE80. Consequently, Entity C continues to recognize the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Entity C will continue to recognize the know-how based on its carrying amount of CU300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Entity C has granted the right to use the know-how to itself. Consequently, Entity C does not remeasure the know-how, and it does not recognize a gain or loss on the grant of the right to use it.

Comparison with IFRS 11

IPSAS 37, *Joint Arrangements,* is drawn primarily from IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 11 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 37 and IFRS 11 are as follows:

- Commentary additional to that in IFRS 11 has been included in IPSAS 37 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS 37 uses different terminology, in certain instances, from IFRS 11. The most significant examples are the use of the terms "controlling entity", "surplus or deficit" and "accumulated surplus or deficit" in IPSAS 37. The equivalent terms in IFRS 11 are, "parent," "profit or loss" and "retained earnings."
- IPSAS 35 defines the term "binding arrangement". This term is broader than the term "contractual arrangement", which is used in IFRS 11.
- IPSAS 37 contains additional illustrative examples that reflect the public sector context.

IPSAS 38—DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS) 12, *Disclosures of Interests in Other Entities* published by the International Accounting Standards Board (IASB). Extracts from IFRS 12 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 38—DISCLOSURE OF INTERESTS IN OTHER ENTITIES

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 38, *Disclosure of Interests in Other Entities* was issued in January 2015.

Since then, IPSAS 38 has been amended by the following IPSASs:

- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in IPSAS 38

Paragraph Affected	How Affected	Affected By
4	Amended	IPSAS 39 July 2016
5	Deleted	The Applicability of IPSASs April 2016
6	Deleted	The Applicability of IPSASs April 2016
61A	New	The Applicability of IPSASs April 2016
61B	New	IPSAS 39 July 2016

January 2015

IPSAS 38—DISCLOSURE OF INTERESTS IN OTHER ENTITIES

CONTENTS

International Public Sector Accounting Standard 38, *Disclosure of Interests in Other Entities*, is set out in paragraphs 1–62. All the paragraphs have equal authority. IPSAS 38 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

   (a) The nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and

   (b) The effects of those interests on its financial position, financial performance and cash flows.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated.**

3. **This Standard shall be applied by an entity that has an interest in any of the following:**

   (a) **Controlled entities;**

   (b) **Joint arrangements (i.e., joint operations or joint ventures);**

   (c) **Associates; or**

   (d) **Structured entities that are not consolidated.**

4. **This Standard does not apply to:**

   (a) **Post-employment benefit plans or other long-term employee benefit plans to which IPSAS 39, *Employee Benefits* applies.**

   (b) **An entity's separate financial statements to which IPSAS 34, *Separate Financial Statements,* applies. However:**

      (i) **If an entity has interests in structured entities that are not consolidated and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 40–48 when preparing those separate financial statements.**

      (ii) **An investment entity that prepares financial statements in which all of its controlled entities are measured at fair value through surplus or deficit in accordance with paragraph 56 of IPSAS 35 shall present the disclosures relating to investment entities required by this Standard.**

(c) **An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.**

(d) **An interest in another entity that is accounted for in accordance with IPSAS 29, *Financial Instruments*: *Recognition and Measurement*. However, an entity shall apply this Standard:**

(i) **When that interest is an interest in an associate or a joint venture that, in accordance with IPSAS 36, *Investments in Associates* and *Joint Ventures*, is measured at fair value through surplus or deficit; or**

(ii) **When that interest is an interest in a structured entity that is not consolidated.**

5. [Deleted]

6. [Deleted]

Definitions

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

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

An interest in another entity, for the purpose of this Standard, refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.

Paragraphs AG7–AG9 provide further information about interests in other entities.

Paragraphs AG57–AG59 of IPSAS 35, *Consolidated Financial Statements* explain variability of benefits.

Revenue from a structured entity, for the purpose of this Standard, includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

A structured entity is:

(a) **In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or**

(b) **In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.**

Paragraphs AG20–AG23 provide further information about structured entities.

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 following terms are defined in either IPSAS 34, *Separate Financial Statements*, IPSAS 35, ***Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures* or IPSAS 37, *Joint Arrangements*: associate, consolidated financial statements, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint arrangement, joint control, joint operation, joint venture, non-controlling interest, relevant activities, separate financial statements, separate vehicle and significant influence.**

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between the parties.

Disclosing Information about Interests in Other Entities

9. **To meet the objective in paragraph 1, an entity shall disclose:**

   (a) **The significant judgments and assumptions it has made in determining:**

      (i) **The nature of its interest in another entity or arrangement;**

      (ii) **The type of joint arrangement in which it has an interest (paragraphs 12–14); and**

      (iii) **That it meets the definition of an investment entity, if applicable (paragraph 15); and**

   (b) **Information about its interests in:**

      (i) **Controlled entities (paragraphs 17–26);**

      (ii) **Joint arrangements and associates (paragraphs 35–39);**

      (iii) **Structured entities that are not consolidated (paragraphs 40–48);**

      (iv) **Non-quantifiable ownership interests (paragraphs 49–50); and**

      (v) **Controlling interests acquired with the intention of disposal (paragraphs 51–57).**

10. **If the disclosures required by this Standard, together with disclosures required by other IPSASs, do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.**

11. **An entity shall consider the level of detail necessary to satisfy the disclosure objective in paragraph 1 and how much emphasis to place on each of the requirements in this Standard. It shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs AG2–AG6).**

Significant Judgments and Assumptions

12. **An entity shall disclose the methodology used to determine:**

   (a) **That it has control of another entity as described in paragraphs 18 and 20 of IPSAS 35;**

   (b) **That it has joint control of an arrangement or significant influence over another entity; and**

(c) **The type of joint arrangement (i.e., joint operation or joint venture) when the arrangement has been structured through a separate vehicle.**

13. **The disclosures required by paragraph 12 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete. The use of such cross-referencing may be subject to jurisdictional restrictions.**

14. **To comply with paragraph 12, an entity shall disclose, for example, the factors considered in determining that:**

(a) **It controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;**

(b) **It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities);**

(c) **It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities);**

(d) **It is an agent or a principal (see paragraphs AG60–AG74 of IPSAS 35);**

(e) **It does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity; and**

(f) **It has significant influence even though it holds less than 20 per cent of the voting rights of another entity.**

Investment Entity Status

15. **When a controlling entity determines that it is an investment entity in accordance with IPSAS 35, the investment entity shall disclose information about significant judgments and assumptions it has made in determining that it is an investment entity. An investment entity is not required to disclose this information if it has all of the characteristics in paragraph 61 of IPSAS 35.**

16. **When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:**

(a) **The total fair value, as of the date of change of status, of the controlled entities that cease to be consolidated;**

(b) **The total gain or loss, if any, calculated in accordance with paragraph 64 of IPSAS 35; and**

(c) The line item(s) in surplus or deficit in which the gain or loss is recognized (if not presented separately).

Interests in Controlled Entities

17. **An entity shall disclose information that enables users of its consolidated financial statements:**

(a) **To understand:**

(i) **The composition of the economic entity; and**

(ii) **The interest that non-controlling interests have in the economic entity's activities and cash flows (paragraph 19); and**

(b) **To evaluate:**

(i) **The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the economic entity (paragraph 20);**

(ii) **The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 21–24);**

(iii) **The consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control (paragraph 25); and**

(iv) **The consequences of losing control of a controlled entity during the reporting period (paragraph 26).**

18. **When the financial statements of a controlled entity used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraph 46 of IPSAS 35) an entity shall disclose:**

(a) **The date of the end of the reporting period of the financial statements of that controlled entity; and**

(b) **The reason for using a different date or period.**

The Interest that Non-controlling Interests have in the Economic Entity's Activities and Cash Flows

19. **An entity shall disclose for each of its controlled entities that have non-controlling interests that are material to the reporting entity:**

    (a) **The name of the controlled entity;**

    (b) **The domicile and legal form of the controlled entity and the jurisdiction in which it operates;**

    (c) **The proportion of ownership interests held by non-controlling interests;**

    (d) **The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;**

    (e) **The surplus or deficit allocated to non-controlling interests of the controlled entity during the reporting period;**

    (f) **Accumulated non-controlling interests of the controlled entity at the end of the reporting period; and**

    (g) **Summarized financial information about the controlled entity (see paragraph AG10).**

The Nature and Extent of Significant Restrictions

20. **An entity shall disclose:**

    (a) **Significant restrictions in binding arrangements (e.g., statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the economic entity, such as:**

        (i) **Those that restrict the ability of a controlling entity or its controlled entities to transfer cash or other assets to (or from) other entities within the economic entity.**

        (ii) **Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the economic entity.**

    (b) **The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the economic entity (such as when a controlling entity is obliged to settle liabilities of a controlled entity before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a controlled entity).**

(c) The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities

21. **An entity shall disclose the terms of any binding arrangements that could require the controlling entity or its controlled entities to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).**

22. **If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a consolidated structured entity (e.g., purchasing assets of, or instruments issued by, the structured entity), the entity shall disclose:**

    (a) **The type and amount of support provided, including situations in which the controlling entity or its controlled entities assisted the structured entity in obtaining financial support; and**

    (b) **The reasons for providing the support.**

23. **If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.**

24. **An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.**

Consequences of Changes in a Controlling Entity's Ownership Interest in a Controlled Entity that do not Result in a Loss of Control

25. **An entity shall present a schedule that shows the effects on the net assets/equity attributable to owners of the controlling entity of any changes in its ownership interest in a controlled entity that do not result in a loss of control.**

Consequences of Losing Control of a Controlled Entity During the Reporting Period

26. **An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 52 of IPSAS 35 and:**

    (a) **The portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost; and**

    (b) **The line item(s) in surplus or deficit in which the gain or loss is recognized (if not presented separately).**

Interests in Unconsolidated Controlled Entities (Investment Entities)

27. **An investment entity that, in accordance with IPSAS 35 is required to apply the exception to consolidation and instead account for its investment in a controlled entity at fair value through surplus or deficit shall disclose that fact.**

28. **For each unconsolidated controlled entity, an investment entity shall disclose:**

    (a) **The controlled entity's name;**

    (b) **The domicile and legal form of the controlled entity and the jurisdiction in which it operates; and**

    (c) **The proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.**

29. **If an investment entity is the controlling entity of another investment entity, the controlling entity shall also provide the disclosures in paragraph 28(a)–(c) for investments that are controlled by its controlled investment entity. The disclosure may be provided by including, in the financial statements of the controlling entity, the financial statements of the controlled entity (or controlled entities) that contain the above information.**

30. **An investment entity shall disclose:**

    (a) **The nature and extent of any significant restrictions arising from binding arrangements (e.g., resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated controlled entity to transfer funds to the investment entity in the form of cash dividends, or similar distributions, or to repay loans or advances made to the unconsolidated controlled entity by the investment entity; and**

(b) **Any current commitments or intentions to provide financial or other support to an unconsolidated controlled entity, including commitments or intentions to assist the controlled entity in obtaining financial support.**

31. **If, during the reporting period, an investment entity or any of its controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated controlled entity (e.g., purchasing assets of, or instruments issued by, the controlled entity or assisting the controlled entity in obtaining financial support), the entity shall disclose:**

(a) **The type and amount of support provided to each unconsolidated controlled entity; and**

(b) **The reasons for providing the support.**

32. **An investment entity shall disclose the terms of any binding arrangements that could require the entity or its unconsolidated controlled entities to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).**

33. **If during the reporting period an investment entity or any of its unconsolidated controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.**

34. **A controlling entity that controls an investment entity and is not itself an investment entity, shall disclose in its consolidated financial statements, the information required by paragraphs 27 to 33 in respect of such unconsolidated controlled entities.**

Interests in Joint Arrangements and Associates

35. **An entity shall disclose information that enables users of its financial statements to evaluate:**

(a) **The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 36 and 38); and**

(b) The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 39).

Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates

36. **An entity shall disclose:**

(a) **For each joint arrangement and associate that is material to the reporting entity:**

(i) **The name of the joint arrangement or associate;**

(ii) **The nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities);**

(iii) **The domicile and legal form of the joint arrangement or associate and the jurisdiction in which it operates; and**

(iv) **The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).**

(b) **For each joint venture and associate that is material to the reporting entity:**

(i) **Whether the investment in the joint venture or associate is measured using the equity method or at fair value;**

(ii) **Summarized financial information about the joint venture or associate as specified in paragraphs AG12 and AG13; and**

(iii) **If the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.**

(c) **Financial information as specified in paragraph AG16 about the entity's investments in joint ventures and associates that are not individually material:**

(i) **In aggregate for all individually immaterial joint ventures; and**

(ii) **In aggregate for all individually immaterial associates. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.**

37. An investment entity need not provide the disclosures required by paragraphs 36(b)–36(c).

38. **An entity shall also disclose:**

(a) **The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or binding arrangements between investors with joint control of, or significant influence over, a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends or similar distributions, or to repay loans or advances made by the entity.**

(b) **When the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:**

(i) **The date of the end of the reporting period of the financial statements of that joint venture or associate; and**

(ii) **The reason for using a different date or period.**

(c) **The unrecognized share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognizing its share of losses of the joint venture or associate when applying the equity method.**

Risks Associated with an Entity's Interests in Joint Ventures and Associates

39. **An entity shall disclose:**

(a) **Commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs AG17–AG19; and**

(b) **In accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.**

Interests in Structured Entities that are not Consolidated

40. **An entity shall disclose information that enables users of its financial statements**:

(a) **To understand the nature and extent of its interests in structured entities that are not consolidated (paragraphs 43–45); and**

(b) **To evaluate the nature of, and changes in, the risks associated with its interests in structured entities that are not consolidated (paragraphs 46–48).**

41. The information required by paragraph 40(b) includes information about an entity's exposure to risk from involvement that it had with structured entities that are not consolidated in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any involvement by way of binding arrangement with the structured entity at the reporting date.

42. An investment entity need not provide the disclosures required by paragraph 40 for a structured entity that it controls but which is not consolidated, and for which it presents the disclosures required by paragraphs 27–33.

Nature of Interests

43. **An entity shall disclose qualitative and quantitative information about its interests in structured entities that are not consolidated, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.**

44. **If an entity has sponsored a structured entity that is not consolidated for which it does not provide information required by paragraph 46 (e.g., because it does not have an interest in the entity at the reporting date), the entity shall disclose:**

    (a) **How it has determined which structured entities it has sponsored;**

    (b) **Revenue from those structured entities during the reporting period, including a description of the types of revenue presented; and**

    (c) **The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.**

45. **An entity shall present the information in paragraph 44(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs AG2–AG6).**

Nature of Risks

46. **An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:**

    (a) **The carrying amounts of the assets and liabilities recognized in its financial statements relating to its interests in structured entities that are not consolidated;**

    (b) **The line items in the statement of financial position in which those assets and liabilities are recognized;**

(c) **The amount that best represents the entity's maximum exposure to loss from its interests in structured entities that are not consolidated, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in structured entities that are not consolidated it shall disclose that fact and the reasons; and**

(d) **A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in structured entities that are not consolidated and the entity's maximum exposure to loss from those entities.**

47. **If during the reporting period an entity has, without having an obligation under a binding arrangement to do so, provided financial or other support to a structured entity that is not consolidated in which it previously had or currently has an interest (for example, purchasing assets of, or instruments issued by, the structured entity), the entity shall disclose:**

(a) **The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and**

(b) **The reasons for providing the support.**

48. **An entity shall disclose any current intentions to provide financial or other support to a structured entity that is not consolidated, including intentions to assist the structured entity in obtaining financial support. Such current intentions include intentions to provide support as a result of obligations under binding arrangements and intentions to provide support where the entity has no obligation under a binding arrangement.**

Non-quantifiable Ownership Interests

49. **An entity shall disclose information that enables users of its financial statements to understand the nature and extent of any non-quantifiable ownership interests in other entities.**

50. **To the extent that this information has not already been provided in accordance with this Standard, an entity shall disclose, in respect of each non-quantifiable ownership interest that is material to the reporting entity:**

(a) **The name of the entity in which it has an ownership interest; and**

(b) **The nature of its ownership interest in the entity.**

Controlling Interests Acquired with the Intention of Disposal

51. **An entity, other than an investment entity, shall disclose information regarding its interest in a controlled entity when, at the point at which control arose, the entity had the intention of disposing of that interest and, at the reporting date, it has an active intention to dispose of that interest.**

52. There are a number of situations in which a public sector entity may obtain control of another entity, but where the entity has an active intention to dispose of all or part of its controlling interest in the near future.

53. Because of a government's broad responsibility for the economic well-being of a jurisdiction it may intervene to prevent the consequences of failure of an entity, such as a financial institution. Such interventions may lead to a government obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the government may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. The obtaining of control as a result of interventions to prevent failure is most likely to occur in the context of governments, but could also occur in the case of individual public sector entities.

54. A public sector entity may also acquire a controlling interest in another entity, with the intention of disposing of all or part of that interest, in implementing a government's policy objectives. For example, a government may direct an entity to acquire certain interests in other entities for the purpose of redistribution.

55. **An entity shall disclose the following information in the notes in respect of each controlled entity referred to in paragraph 51:**

    (a) **The name of the controlled entity and a description of its key activities;**

    (b) **The rationale for the acquisition of the controlling interest and the factors considered in determining that control exists;**

    (c) **The impact on the consolidated financial statements of consolidating the controlled entity including the effect on assets, liabilities, revenue, expenses and net assets/equity; and**

    (d) **The current status of the approach to disposal, including the expected method and timing of disposal.**

56. **The disclosures required by paragraph 55 shall be provided at each reporting date until the entity disposes of the controlling interest or ceases to have the intention to dispose of that interest. In the period in which the entity disposes of the controlling interest or ceases to have the intention to dispose of the controlling interest it shall disclose:**

    (a) **The fact that there has been a disposal or change of intention; and**

    (b) **The effect of the disposal or change of intention on the consolidated financial statements.**

57. **Where other disclosures required by this Standard or other IPSASs would provide information relevant to paragraphs 55 or 56 a cross-reference to those other disclosures shall be provided.**

Transitional Provisions

58. An entity is encouraged to provide information required by this Standard earlier than annual periods beginning on or after January 1, 2017. Providing some of the disclosures required by this Standard does not compel the entity to comply with all the requirements of this Standard or to apply IPSAS 34, IPSAS 35, IPSAS 36, and IPSAS 37 early.

59. The disclosure requirements of this Standard need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which this Standard is applied.

60. The disclosure requirements of paragraphs 40–56 and the corresponding guidance in paragraphs AG20–AG25 of this Standard need not be applied for any period presented that begins before the first annual period for which this Standard is applied.

Effective Date

61. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged.**

61A. **Paragraphs 5 and 6 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

61B. **Paragraph 4 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment**

for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.

62. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 38.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying this Standard.

Aggregation (paragraph 11)

AG2. An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

AG3. An entity may aggregate the disclosures required by this Standard for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph AG4, and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.

AG4. An entity shall present information separately for interests in:

(a) Controlled entities;

(b) Joint ventures;

(c) Joint operations;

(d) Associates; and

(e) Structured entities that are not consolidated.

AG5. In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and benefit characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

AG6. Examples of aggregation levels within the classes of entities set out in paragraph AG4 that might be appropriate are:

(a) Nature of activities (e.g., a research and development entity, a revolving credit card securitization entity).

(b) Industry classification.

(c) Geography (e.g., country or region).

Interests in Other Entities

AG7. An interest in another entity refers to involvement by way of binding arrangements or otherwise that exposes the reporting entity to variability of benefits from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this Standard. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.

AG8. A reporting entity is typically exposed to variability of benefits from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability. For example, assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of benefits from the performance of the structured entity because the credit default swap absorbs variability of benefits, in the form of returns, of the structured entity.

AG9. Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of benefits for the other entity but do not typically expose the reporting entity to variability of benefits from the performance of the other entity. For example, assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to entity Z's credit risk (entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive higher benefits that reflect both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of benefits from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of benefits of the structured entity.

Summarized Financial Information for Controlled Entities, Joint Ventures and Associates (paragraphs 19 and 36)

AG10. For each controlled entity that has non-controlling interests that are material to the reporting entity, an entity shall disclose:

(a) Dividends or similar distributions paid to non-controlling interests; and

(b) Summarized financial information about the assets, liabilities, surplus or deficit and cash flows of the controlled entity that enables users to understand the interest that non-controlling interests have in the economic entity's activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue and surplus or deficit.

AG11. The summarized financial information required by paragraph AG10(b) shall be the amounts before inter-entity eliminations.

AG12. For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

(a) Dividends or similar distributions received from the joint venture or associate; and

(b) Summarized financial information for the joint venture or associate (see paragraphs AG14 and AG15) including, but not necessarily limited to:

(i) Current assets;

(ii) Non-current assets;

(iii) Current liabilities;

(iv) Non-current liabilities;

(v) Revenue;

(vi) Tax expense;

(vii) Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and

(viii) Surplus or deficit.

AG13. In addition to the summarized financial information required by paragraph AG12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:

(a) Cash and cash equivalents included in paragraph AG12(b)(i);

(b) Current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iii);

(c) Non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iv);

(d) Depreciation and amortization;

(e) Interest revenue;

(f) Interest expense; and

(g) Income tax expense.

AG14. The summarized financial information presented in accordance with paragraphs AG12 and AG13 shall be the amounts included in the IPSAS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

(a) The amounts included in the IPSAS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

(b) The entity shall provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture or associate.

AG15. An entity may present the summarized financial information required by paragraphs AG12 and AG13 on the basis of the joint venture's or associate's financial statements if:

(a) The entity measures its interest in the joint venture or associate at fair value in accordance with IPSAS 36; and

(b) The joint venture or associate does not prepare IPSAS financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity shall disclose the basis on which the summarized financial information has been prepared.

AG16. An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

(a) Revenue.

(b) Tax expense.

(c) Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations.

(d) Surplus or deficit.

(e) An entity provides the disclosures separately for joint ventures and associates.

Commitments for Joint Ventures (paragraph 39(a))

AG17. An entity shall disclose total commitments it has made but not recognized at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.

AG18. Unrecognized commitments that may give rise to a future outflow of cash or other resources include:

(a) Unrecognized commitments to contribute funding or resources as a result of, for example:

(i) The constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).

(ii) Capital-intensive projects undertaken by a joint venture.

(iii) Unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.

(iv) Unrecognized commitments to provide loans or other financial support to a joint venture.

(v) Unrecognized commitments to contribute resources to a joint venture, such as assets or services.

(vi) Other non-cancellable unrecognized commitments relating to a joint venture.

(b) Unrecognized commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.

AG19. The requirements and examples in paragraphs AG17 and AG18 illustrate some of the types of disclosure required by paragraph 27 of IPSAS 20, *Related Party Disclosures*.

Interests in Structured Entities that are not Consolidated (paragraphs 40–48)

Structured Entities

AG20. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Although binding arrangements frequently occur between public sector entities, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Depending on the context a structured entity could be (i) an entity for which most of the activities are predetermined, with the relevant activities limited in scope but directed through binding arrangements or (ii) an entity for which any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

AG21. A structured entity often has some or all of the following features or attributes:

(a) Restricted activities.

(b) A narrow and well-defined objective, such as to carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.

(c) Insufficient net assets/equity to permit the structured entity to finance its activities without subordinated financial support.

(d) Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

AG22. Examples of entities that are regarded as structured entities include, but are not limited to:

(a) A partnership between a government and a private sector entity that is not a joint venture, being a partnership established and directed by binding arrangements.

(b) Securitization vehicles.

(c) Asset-backed financings.

(d) Some investment funds.

AG23. The mere fact that a government provides funding to another entity does not make that entity a structured entity. Nor is an entity that is controlled by voting rights a structured entity simply because, for example, it receives funding from third parties following a restructuring.

Nature of Risks from Interests in Structured Entities that are not Consolidated (paragraphs 46–48)

AG24. In addition to the information required by paragraphs 46–48, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 40(b).

AG25. Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in a structured entity that is not consolidated are:

(a) The terms of an arrangement that could require the entity to provide financial support to a structured entity that is not consolidated (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including:

(i) A description of events or circumstances that could expose the reporting entity to a loss.

(ii) Whether there are any terms that would limit the obligation.

(iii) Whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.

(b) Losses incurred by the entity during the reporting period relating to its interests in structured entities that are not consolidated.

(c) The types of revenue the entity received during the reporting period from its interests in structured entities that are not consolidated.

(d) Whether the entity is required to absorb losses of a structured entity that is not consolidated before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the structured entity that is not consolidated.

(e) Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in structured entities that are not consolidated.

(f) Any difficulties a structured entity that is not consolidated has experienced in financing its activities during the reporting period.

(g) In relation to the funding of a structured entity that is not consolidated, the forms of funding (e.g., commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of a structured entity if the structured entity has longer-term assets funded by shorter-term funding.

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 38, Disclosure of Interests in Other Entities.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 38. As this Standard is based on IFRS 12, *Disclosure of Interests in Other Entities* (issued in 2011, including amendments up to December 31, 2014), issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 38 departs from the main requirements of IFRS 12.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 52, *Disclosure of Interests in Other Entities*, was based on IFRS 12, *Disclosure of Interests in Other Entities*, having regard to the relevant public sector modifications to the disclosure requirements in IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 38. These new IPSASs supersede IPSAS 6, IPSAS 7, and IPSAS 8.

Significant Judgments and Assumptions (paragraphs 12 to 14)

BC3. The IPSASB noted that paragraph 7 of IFRS 12,requires that an entity disclose information about significant judgments and assumptions it has made in determining the nature of its interest in another entity (for example, control, joint control or significant influence). Although the IPSASB agreed that users need information about how an entity has made these judgments, it noted that a public sector entity could be required to make many judgments and assumptions in relation to particular entities, and that the disclosure of such judgments and assumptions and changes in such judgments from period to period could result in unnecessary detail. The IPSASB also noted that, in the public sector, decisions about the reporting entity may be made having regard to frameworks developed in conjunction with other parties such as legislative bodies or oversight committees. The assessments made in respect of the classification of certain types of entities as controlled entities, jointly controlled entities, or entities subject to significant influence may be recorded in public documents other than the financial statements. The IPSASB therefore agreed to require that an entity disclose the methodology used to decide the existence or absence of control, joint control of an arrangement or significant influence, either in the financial statements themselves or by way of reference to another publicly available document.

Definition of Structured Entity (paragraphs 7 and AG20 to AG23)

BC4. The IPSASB noted that the definition of "structured entity" in IFRS 12 focusses on voting or similar rights, which tend to occur less frequently or have less significance in the public sector than in the private sector. However, the IPSASB agreed that it was still appropriate to refer to voting or similar rights in the definition of a structured entity because voting or similar rights may be the predominant way in which a public sector entity establishes control over another entity. The IPSASB decided to modify the definition of a structured entity to highlight that they occur when the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity and encompass the broader range of circumstances that occur in the public sector.

BC5. The IPSASB identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many public sector entities. Accordingly, the IPSASB took the view that the reference to "similar rights" in the definition of structured entity should encompass administrative arrangements and statutory provisions. Thus, the ED proposed that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity would not be structured entities. The IPSASB considers that the disclosures required of structured entities are appropriate, but that in order to be useful they need to be focused on a limited class of entities (consistent with the intention of the IASB's requirements in relation to entities applying IFRS 12).

BC6. Some respondents to ED 52 were concerned that the definition of a structured entity could be read as suggesting that an entity was operating in an unauthorized way or in contravention of laws. The IPSASB noted that this was not its intention and reviewed the definition of structured entities to see if any clarification was required. The IPSASB noted that the definition does not suggest that a structured entity would not be required to comply with relevant statutes or administrative arrangements. Rather the definition allows for the possibility that a small group of entities may have been established under different arrangements from the arrangements commonly used to establish similar entities.

Investment Entities (paragraphs 27 to 34)

BC7. The IPSASB considered the investment entity disclosures required by IFRS 12 and concluded that those disclosures were particularly appropriate in the public sector context. The IPSASB noted that, as a consequence of the requirements in IPSAS 35 most public sector entities with investment entities would be required to make these disclosures.

BC8. The IPSASB considered whether a non-investment controlling entity accounting for investment entities at fair value should be required to make any additional disclosures. The IPSASB considered that the disclosures required in relation to investment entities were appropriate and should also be provided in the consolidated financial statements of a controlling entity with investment entities.

Non-quantifiable Ownership Interests (paragraphs 49 and 50)

BC9. The scope of IPSAS 36, *Investments in Associates and Joint Ventures*, is limited to "quantifiable ownership interests". The IPSASB noted that respondents supported this proposal, but considered that disclosure of information about an entity's non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed to require, in this Standard, disclosure of information about non-quantifiable ownership interests.

Controlling Interests Acquired with the Intention of Disposal (paragraphs 50 to 57)

BC10. Some respondents to ED 52 proposed that the IPSASB require disclosures about temporary control (either by developing a standard based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, or by adding disclosures to this Standard). The IPSASB considered, and rejected, the idea of requiring disclosure of all controlled investments held for sale on the grounds that it was too broad. Nevertheless, the IPSASB agreed that some disclosure about controlling interests intended to be held for a limited time could be of interest to users. For example, the IPSASB considered that users would be interested in information about interventions to prevent the consequences of the failure of an entity, or acquisitions of entities which will subsequently be redistributed to achieve policy objectives. The IPSASB agreed that its objective was to require disclosure of information about controlling interests where there was an active intention to dispose of the interest, both at the time of the acquisition and at the reporting date.

BC11. In considering the information to be disclosed the IPSASB agreed that the requirements should be general in nature. The IPSASB acknowledged that the circumstances in which a controlling interest is acquired or disposed of could vary widely (for example, a controlling interest might be acquired by virtue of providing guarantees).In addition, entities might wish to provide information about the transactions or events giving rise to such controlling interests, and the IPSASB did not wish to be unnecessarily prescriptive about the type of information that should be provided. The IPSASB therefore agreed to require disclosures to assist users to understand the impact of consolidating such controlling interests on the consolidated financial statements by reference to the effect on the main aspects of the financial statements.

BC12. The IPSASB acknowledged that the expected method of disposal might be under consideration at the reporting date and that plans might change from one period to another. It also acknowledged that disposal might occur in stages. The IPSASB therefore agreed to require disclosure of the "current status of the approach to disposal".

BC13. The IPSASB considered whether to limit the disclosures to situations where control was expected to exist for a specified time period, such as one or two years. The IPSASB decided not to specify a time period. It considered that limiting the disclosures to controlling interests and situations where there was still an active intention to dispose of the interest would lead to informative disclosures without overwhelming readers with too much detail.

Revision of IPSAS 38 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC14. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Comparison with IFRS 12

IPSAS 38, *Disclosure of Interests in Other Entities* is drawn primarily from IFRS 12, *Disclosure of Interests in Other Entities* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 12 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 38 and IFRS 12 are as follows:

- IPSAS 38 uses different terminology, in certain instances, from IFRS 12. The most significant examples are the use of the terms "net assets/equity," "economic entity," "controlling entity," "controlled entity", "revenue" in IPSAS 38. The equivalent terms in IFRS 12 are "equity," "group," "parent," "subsidiary" and "income."
- Commentary additional to that in IFRS 12 has been included in IPSAS 38 to clarify the applicability of the Standard to accounting by public sector entities.
- The definition of a structured entity in IPSAS 38 acknowledges the differing ways in which control may be obtained in the public sector.
- IPSAS 38 requires that a controlling entity that controls an investment entity, and is not itself an investment entity, disclose information in respect of unconsolidated investment entities. IFRS 12 does not require such disclosures by a controlling entity that controls an investment entity, and is not itself an investment entity because IFRS 10 requires that such a controlling entity consolidate controlled investment entities.
- IPSAS 38 requires the disclosure of information about non-quantifiable ownership interests. IFRS 12 does not specify such disclosures.
- IPSAS 38 requires the disclosure of information about interests in entities that were acquired with the intention of disposal and which are still held for disposal. IFRS 12 does not specify such disclosures. However, IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* requires disclosures about non-current assets held for sale.

IPSAS 39—EMPLOYEE BENEFITS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS) 19, *Employee Benefits* published by the International Accounting Standards Board (IASB). Extracts from IAS 19 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 39—EMPLOYEE BENEFITS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 39, *Employee Benefits* was issued in July 2016.

IPSAS 39—EMPLOYEE BENEFITS

CONTENTS

International Public Sector Accounting Standard 39, *Employee Benefits*, is set out in paragraphs 1–178. All the paragraphs have equal authority. IPSAS 39 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:

   (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

   (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope

2. **This Standard shall be applied by an employer in accounting for all employee benefits, except share-based transactions (see the relevant international or national accounting standard dealing with share-based transactions).**

3. This Standard does not deal with reporting by employee retirement benefit plans (see the relevant international or national accounting standard dealing with employee retirement benefit plans). This Standard does not deal with benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities.

4. The employee benefits to which this Standard applies include those provided:

   (a) Under formal plans or other formal agreements between an entity and individual employees, groups of employees, or their representatives;

   (b) Under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry, or other multi-employer plans, or where entities are required to contribute to the composite social security program; or

   (c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

5. Employee benefits include:

   (a) Short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

      (i) Wages, salaries and social security contributions;

   (ii) Paid annual leave and paid sick leave;

   (iii) Profit-sharing and bonuses; and

   (iv) Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

(b) Post-employment benefits, such as the following:

   (i) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

   (ii) Other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) Other long-term employee benefits, such as the following:

   (i) Long-term paid absences such as long-service leave or sabbatical leave;

   (ii) Jubilee or other long-service benefits; and

   (iii) Long-term disability benefits; and

(d) Termination benefits.

6. Employee benefits include benefits provided either to employees or to their dependants, and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children, or other dependants, or to others, such as insurance companies.

7. An employee may provide services to an entity on a full-time, part-time, permanent, casual, or temporary basis. For the purpose of this Standard, employees include key management personnel as defined in IPSAS 20, *Related Party Disclosures*.

Definitions

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

Definitions of Employee Benefits

<u>Employee benefits</u> are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

<u>Short-term employee benefits</u> are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

(a) **An entity's decision to terminate an employee's employment before the normal retirement date; or**

(b) **An employee's decision to accept an offer of benefits in exchange for the termination of employment.**

Definitions Relating to Classification of Plans

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) **Pool the assets contributed by various entities that are not under common control; and**

(b) **Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.**

State plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

Definitions Relating to the Net Defined Benefit Liability (Asset)

The net defined benefit liability (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The deficit or surplus is:

(a) **The present value of the defined benefit obligation less**

(b) **The fair value of plan assets (if any).**

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets comprise:

(a) **Assets held by a long-term employee benefit fund; and**

(b) **Qualifying insurance policies.**

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) **Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and**

(b) **Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:**

    (i) **The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or**

    (ii) **The assets are returned to the reporting entity to reimburse it for employee benefits already paid.**

A qualifying insurance policy is an insurance policy[1] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy:

(a) **Can be used only to pay or fund employee benefits under a defined benefit plan; and**

(b) **Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:**

   (i) **The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or**

   (ii) **The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.**

Definitions Relating to Defined Benefit Cost

Service cost comprises:

(a) **Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;**

(b) **Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and**

(c) **Any gain or loss on settlement.**

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

(a) **Actuarial gains and losses;**

(b) **The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and**

[1] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international or national standard dealing with insurance contracts).

(c) **Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).**

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

(a) **Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and**

(b) **The effects of changes in actuarial assumptions.**

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less:

(a) **Any costs of managing the plan assets; and**

(b) **Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.**

A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-Term Employee Benefits

9. Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

   (a) Wages, salaries, and social security contributions;

   (b) Paid annual leave and paid sick leave;

   (c) Profit-sharing and bonuses; and

   (d) Nonmonetary benefits (such as medical care, housing, cars, and free or subsidized goods or services) for current employees.

10. An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of 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, *Property, Plant, and Equipment*).**

12. **Paragraphs 13, 16, and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.**

Short-Term Paid Absences

13. **An entity shall recognize the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:**

    (a) **In the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and**

    (b) **In the case of non-accumulating paid absences, when the absences occur.**

14. An entity may pay employees for absence for various reasons, including holidays, sickness and short-term disability, maternity or paternity, jury service, and military service. Entitlement to paid absences falls into two categories:

    (a) Accumulating; and

    (b) Non-accumulating.

15. Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation

exists, and is recognized, even if the paid absences are nonvesting, although the possibility that employees may leave before they use an accumulated nonvesting entitlement affects the measurement of that obligation.

16. **An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.**

17. The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

18. Non-accumulating paid absences do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave, and paid absences for jury service or military service. An entity recognizes no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-Sharing and Bonus Plans

19. **An entity shall recognize the expected cost of profit-sharing and bonus payments under paragraph 11 when, and only when:**

    (a) **The entity has a present legal or constructive obligation to make such payments as a result of past events; and**

    (b) **A reliable estimate of the obligation can be made.**

    A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

20. In the public sector, some entities have bonus plans that are related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the entity or a segment of the entity. In some cases, such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Because of the objectives of public sector entities, profit-sharing plans are far less common in the public sector than for profit-oriented entities. However, they are likely to be an aspect of employee remuneration in segments of public sector entities that operate on a

commercial basis. Some public sector entities may not operate profit-sharing schemes, but may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the entity before the end of the reporting period. However, under other bonus plans, employees receive payments only if they remain with the entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments. Paragraph 22 provides further conditions that are to be satisfied before an entity can recognize the expected cost of performance-related payments, bonus payments, and profit-sharing payments.

21. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

22. An entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme, bonus plan, or profit-sharing scheme when, and only when:

(a) The formal terms of the plan contain a formula for determining the amount of the benefit;

(b) The entity determines the amounts to be paid before the financial statements are authorized for issue; or

(c) Past practice gives clear evidence of the amount of the entity's constructive obligation.

23. An obligation under profit-sharing plans and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognizes the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

24. If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 155–161).

Disclosure

25. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IPSAS 20 requires disclosures of the aggregate remuneration of key management personnel and IPSAS 1, *Presentation of Financial Statements* requires the disclosure of information about employee benefits expense.

Post-employment Benefits—Distinction between Defined Contribution Plans and Defined Benefit Plans

26. Post-employment benefits include items such as the following:

    (a) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

    (b) Other post-employment benefits, such as post-employment life insurance, and post-employment medical care.

    Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements, whether or not they involve the establishment of a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

27. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan, as derived from its principal terms and conditions.

28. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

29. Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

    (a) A plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

    (b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

30. Under defined benefit plans:

(a) The entity's obligation is to provide the agreed benefits to current and former employees; and

(b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

31. Paragraphs 32–51 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans, and insured benefits.

Multi-Employer Plans

32. **An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).**

33. **If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:**

(a) **Account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**

(b) **Disclose the information required by paragraphs 137–150 (excluding paragraph 150(d)).**

34. **When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:**

(a) **Account for the plan in accordance with paragraphs 53 and 54 as if it were a defined contribution plan; and**

(b) **Disclose the information required by paragraph 150.**

35. One example of a multi-employer defined benefit plan is one where:

(a) The plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

(b) Employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

36. Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual entities participating in the plan; or

(b) The entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph 150.

37. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

38. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or

a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

39. **In determining when to recognize, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.**

Defined Benefit Plans that Share Risks between Entities under Common Control

40. Defined benefit plans that share risks between various entities under common control, for example, controlling and controlled entities, are not multi-employer plans.

41. An entity participating in such a plan obtains information about the plan as a whole, measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the entity shall, in its separate or individual financial statements, recognize the net defined benefit cost so charged. If there is no such agreement, arrangement, or policy, the net defined benefit cost shall be recognized in the separate or individual financial statements of the entity that is legally the sponsoring employer for the plan. The other entities shall, in their separate or individual financial statements, recognize a cost equal to their contribution payable for the period.

42. There are cases in the public sector where a controlling entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement, or stated policy, as specified in paragraph 41, the controlled entity accounts on a defined contribution basis and the controlling entity accounts on a defined benefit basis in its consolidated financial statements. The controlled entity also discloses that it accounts on a defined contribution basis in its separate financial statements. A controlled entity that accounts on a defined contribution basis also provides details of the controlling entity, and states that, in the controlling entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled entity also makes the disclosures required in paragraph 151.

43. **Participation in such a plan is a related party transaction for each individual entity. An entity shall therefore, in its separate or individual financial statements, disclose the information required by paragraph 151.**

State Plans

44. **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 32 and 39).**

45. State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, state, or local government or by another body (for example, an agency created specifically for this purpose). This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity. While governments may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Standard. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

46. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If an entity's only obligation is to pay the contributions as they fall due, and the entity has no obligation to pay future benefits, it accounts for that state plan as a defined contribution plan.

47. A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

Insured Benefits

48. **An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:**

    (a) **To pay the employee benefits directly when they fall due; or**

    (b) **To pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

49. The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

50. Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

    (a) Accounts for a qualifying insurance policy as a plan asset (see paragraph 8); and

    (b) Recognizes other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 118).

51. Where an insurance policy is in the name of a specified plan participant or a group of plan participants, and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees, and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-Employment Benefits—Defined Contribution Plans

52. Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense~~,~~ and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

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).**

54. **When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 85.**

Disclosure

55. **An entity shall disclose the amount recognized as an expense for defined contribution plans.**

56. Where required by IPSAS 20, an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-Employment Benefits—Defined Benefit Plans

57. Accounting for defined benefit plans is complex, because actuarial assumptions are required to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

Recognition and Measurement

58. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognized for a defined benefit plan is not necessarily the amount of the contribution due for the period.

59. Accounting by an entity for defined benefit plans involves the following steps:

(a) Determining the deficit or surplus. This involves:

   (i) Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 69–71). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 72–76), and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 77–100);

   (ii) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 69–71 and 85–88);

   (iii) Deducting the fair value of any plan assets (see paragraphs 115–117) from the present value of the defined benefit obligation;

(b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 66).

(c) Determining amounts to be recognized in surplus or deficit:

   (i) Current service cost (see paragraphs 72–76).

   (ii) Any past service cost and gain or loss on settlement (see paragraphs 101–114).

   (iii) Net interest on the net defined benefit liability (asset) (see paragraphs 125–128).

(d) Determining the remeasurements of the net defined benefit liability (asset), to be recognized in net assets/equity, comprising:

   (i) Actuarial gains and losses (see paragraphs 130 and 131);

   (ii) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 132); and

   (iii) Any change in the effect of the asset ceiling (see paragraph 66), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

60. **An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**

61. This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

62. In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the Constructive Obligation

63. **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**

64. The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of Financial Position

65. **An entity shall recognize the net defined benefit liability (asset) in the statement of financial position.**

66. **When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:**

    (a) **The surplus in the defined benefit plan; and**

    (b) **The asset ceiling, determined using the discount rate specified in paragraph 85.**

67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

    (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

    (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

    (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and Measurement—Present Value of Defined Benefit Obligations and Current Service Cost

68. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

    (a) To apply an actuarial valuation method (see paragraphs 69–71);

    (b) To attribute benefit to periods of service (see paragraphs 72–76); and

    (c) To make actuarial assumptions (see paragraphs 77–100).

Actuarial Valuation Method

69. **An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.**

70. The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 72–76), and measures each unit separately to build up the final obligation (see paragraphs 77–100).

71. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing Benefit to Periods of Service

72. **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an**

entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

(a) **The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until**

(b) **The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**

73. The projected unit credit method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

74. Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

75. The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

76. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) For the purpose of paragraph 72(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) The amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Actuarial Assumptions

77. Actuarial assumptions shall be unbiased and mutually compatible.

78. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) Demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) Mortality (see paragraphs 83 and 84);

(ii) Rates of employee turnover, disability, and early retirement;

(iii) The proportion of plan members with dependants who will be eligible for benefits;

(iv) The proportion of plan members who will select each form of payment option available under the plan terms; and

(v) Claim rates under medical plans.

(b) Financial assumptions, dealing with items such as:

(i) The discount rate (see paragraphs 85–88);

(ii) Benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 89–97);

(iii) In the case of medical benefits, future medical costs, including claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 98–100); and

(iv) Taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.

79. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

80. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

81. An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see IPSAS 10, *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked, and there is a deep market in index-linked bonds of the same currency and term.

82. **Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.**

Actuarial Assumptions: Mortality

83. **An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.**

84. In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial Assumptions—Discount Rate

85. **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.**

86. One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

87. The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments, and the currency in which the benefits are to be paid.

88. An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period on government bonds, high quality corporate bonds, or by another financial instrument. In some jurisdictions, market yields at the end of the reporting period on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the end of the reporting period on government bonds do not reflect the time value of money. In such cases, the reporting entity determines the rate by another method, such as by reference to market yields on high quality corporate bonds. There may also be circumstances where there is no deep market in government bonds or high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such circumstances, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available financial instrument, such as government bonds or corporate bonds.

Actuarial Assumptions—Salaries, Benefits and Medical Costs

89. **An entity shall measure its defined benefit obligations on a basis that reflects:**

   (a) **The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;**

   (b) **Any estimated future salary increases that affect the benefits payable;**

   (c) **The effect of any limit on the employer's share of the cost of the future benefits;**

   (d) **Contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and**

   (e) **Estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:**

      (i) **Those changes were enacted before the end of the reporting period; or**

      (ii) **Historical data, or other reliable evidence, indicate that those state benefits will change in some predictable manner, for**

example, in line with future changes in general price levels or general salary levels.

90. Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

(a) The entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) The entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 110(c)); or

(c) Benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

91. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

(a) Past service cost, to the extent that they change benefits for service before the change; and

(b) Current service cost for periods after the change, to the extent that they change benefits for service after the change.

92. Estimates of future salary increases take account of inflation, seniority, promotion, and other relevant factors, such as supply and demand in the employment market.

93. Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

(a) The estimated life of the entity; and

(b) The estimated life of the plan.

94. Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 118. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive

obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

95. Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

(a) If the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph 72 for the gross benefit (i.e., either using the plan's contribution formula or on a straight-line basis); or

(b) If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Paragraph AG13 provides related application guidance.

96. For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 95(a), changes in the contributions result in:

(a) Current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

(b) Actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).

97. Some post-employment benefits are linked to variables such as the level of benefit entitlements from social security pensions or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

98. **Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.**

99. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers, or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilization or delivery patterns, and changes in the health status of plan participants.

100. The level and frequency of claims is particularly sensitive to the age, health status, and gender of employees (and their dependants), and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past Service Cost and Gains and Losses on Settlement

101. **Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.**

102. An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognizes past service cost before any gain or loss on settlement.

103. A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

Past Service Cost

104. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

105. **An entity shall recognize past service cost as an expense at the earlier of the following dates:**

(a) **When the plan amendment or curtailment occurs; and**

(b) **When the entity recognizes related restructuring costs (see IPSAS 19) or termination benefits (see paragraph 168).**

106. A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

107. A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

108. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

109. Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

110. Past service cost excludes:

(a) The effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) Underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) Estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognized in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 90); and

(d) The increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph 74) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognized the estimated cost of benefits as current service cost as the service was rendered).

Gains and Losses on Settlement

111. The gain or loss on a settlement is the difference between:

(a) The present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

112. **An entity shall recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.**

113. A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

114. In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 48) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 118–121 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and Measurement—Plan Assets

Fair Value of Plan Assets

115. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

116. Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

117. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

118. **When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall:**

(a) **Recognize its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.**

(b) **Disaggregate and recognize changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 126 and 128). The components of defined benefit cost recognized in accordance with paragraph 122 may be recognized net of amounts relating to changes in the carrying amount of the right to reimbursement.**

119. Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph 118 is not relevant (see paragraphs 48–51 and 117).

120. When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 118 is relevant to such cases: the entity recognizes its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 142(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

121. If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of Defined Benefit Cost

122. **An entity shall recognize the components of defined benefit cost, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset, as follows:**

(a) **Service cost (see paragraphs 68–114) in surplus or deficit;**

(b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125–128) in surplus or deficit; and**

(c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132) in net assets/equity.**

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). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

124. **Remeasurements of the net defined benefit liability (asset) recognized in net assets/equity shall not be reclassified to surplus or deficit in a subsequent period. However, the entity may transfer those amounts recognized in net assets/equity within net assets/equity.**

Net Interest on the Net Defined Benefit Liability (Asset)

125. **Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.**

126. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 66.

127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 85, both as determined at the start of the reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the Net Defined Benefit Liability (Asset)

129. Remeasurements of the net defined benefit liability (asset) comprise:

(a) Actuarial gains and losses (see paragraphs 130 and 131);

(b) The return on plan assets (see paragraph 132), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 127); and

(c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 128).

130. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

(a) Unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) The effect of changes to assumptions concerning benefit payment options;

(c) The effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) The effect of changes in the discount rate.

131. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

132. In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 78). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

133. **An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**

(a) **Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**

(b) **Intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.**

134. The offsetting criteria are similar to those established for financial instruments in IPSAS 28, *Financial Instruments: Presentation*.

Current/Non-Current Distinction

135. Some entities distinguish current assets and liabilities from noncurrent assets and liabilities. This Standard does not specify whether an entity should distinguish current and noncurrent portions of assets and liabilities arising from post-employment benefits.

Components of Defined Benefit Cost

136. Paragraph 122 requires an entity to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IPSAS 1.

Disclosure

137. **An entity shall disclose information that:**

(a) **Explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 141);**

(b) **Identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 142–146); and**

(c) **Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 147–149).**

138. To meet the objectives in paragraph 137, 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.

139. If the disclosures provided in accordance with the requirements in this Standard and other IPSASs are insufficient to meet the objectives in paragraph 137, an entity shall disclose additional information necessary to meet those

objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) Between amounts owing to active members, deferred members, and pensioners.

(b) Between vested benefits and accrued but not vested benefits.

(c) Between conditional benefits, amounts attributable to future salary increases and other benefits.

140. An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) Different geographical locations.

(b) Different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) Different regulatory environments.

(d) Different reporting segments.

(e) Different funding arrangements (e.g., wholly unfunded, wholly or partly funded).

Characteristics of Defined Benefit Plans and Risks Associated with Them

141. An entity shall disclose:

(a) Information about the characteristics of its defined benefit plans, including:

    (i) The nature of the benefits provided by the plan (e.g., final salary defined benefit plan or contribution-based plan with guarantee).

    (ii) A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 66).

    (iii) A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.

(b) A description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g., property, the plan may expose the entity to a concentration of property market risk.

(c) A description of any plan amendments, curtailments and settlements.

(d) The basis on which the discount rate has been determined.

Explanation of Amounts in the Financial Statements

142. An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) The net defined benefit liability (asset), showing separate reconciliations for:

(i) Plan assets.

(ii) The present value of the defined benefit obligation.

(iii) The effect of the asset ceiling.

(b) Any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

143. Each reconciliation listed in paragraph 142 shall show each of the following, if applicable:

(a) Current service cost.

(b) Interest revenue or expense.

(c) Remeasurements of the net defined benefit liability (asset), showing separately:

(i) The return on plan assets, excluding amounts included in interest in (b).

(ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph 78(a)).

(iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph 78(b)).

(iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, i.e., whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) Past service cost and gains and losses arising from settlements. As permitted by paragraph 102, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

(e) The effect of changes in foreign exchange rates.

(f) Contributions to the plan, showing separately those by the employer and by plan participants.

(g) Payments from the plan, showing separately the amount paid in respect of any settlements.

(h) The effects of public sector combinations and disposals.

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 and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:

(a) Cash and cash equivalents;

(b) Equity instruments (segregated by industry type, company size, geography etc.);

(c) Debt instruments (segregated by type of issuer, credit quality, geography etc.);

(d) Real estate (segregated by geography etc.);

(e) Derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc.);

(f) Investment funds (segregated by type of fund);

(g) Asset-backed securities; and

(h) Structured debt.

145. An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

146. An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 78). Such disclosure shall be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, Timing and Uncertainty of Future Cash Flows

147. An entity shall disclose:

(a) A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 146) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

(b) The methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

148. An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

149. To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) A description of any funding arrangements and funding policy that affect future contributions.

(b) The expected contributions to the plan for the next reporting period.

(c) Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-Employer Plans

150. If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) A description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) A description of any agreed allocation of a deficit or surplus on:

(i) Wind-up of the plan; or

(ii) The entity's withdrawal from the plan.

(d) If the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 141–149:

(i) The fact that the plan is a defined benefit plan.

(ii) The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) The expected contributions to the plan for the next reporting period.

(iv) Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) An indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined Benefit Plans that Share Risks Between Entities under Common Control

151. If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(a) The contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) The policy for determining the contribution to be paid by the entity.

(c) If the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 137–149.

(d) If the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 137–139, 141, 144–146 and 149(a) and (b).

152. The information required by paragraph 151(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) That group entity's financial statements separately identify and disclose the information required about the plan; and

(b) That group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure Requirements in Other IPSASs

153. Where required by IPSAS 20, an entity discloses information about:

(a) Related party transactions with post-employment benefit plans; and

(b) Post-employment benefits for key management personnel.

154. Where required by IPSAS 19, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-Term Employee Benefits

155. Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service:

(a) Long-term paid absences such as long service or sabbatical leave;

(b) Jubilee or other long service benefits;

(c) Long-term disability benefits;

(d) Profit sharing and bonuses;

(e) Deferred remuneration; and

(f) Compensation payable by the entity until an individual enters new employment.

156. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognize remeasurements in net assets/equity.

157. This Standard includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs 57–154.

Recognition and Measurement

158. **In recognizing and measuring the surplus or deficit in another long-term employee benefit plan, an entity shall apply paragraphs 58–100 and 115–117. An entity shall apply paragraphs 118–121 in recognizing and measuring any reimbursement right.**

159. **For other long-term employee benefits, an entity shall recognize the net total of the following amounts in surplus or deficit, except to the extent**

that another IPSAS requires or permits their inclusion in the cost of an asset:

(a) **Service cost (see paragraphs 68–114);**

(b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125-128); and**

(c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132).**

160. One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability.

Disclosure

161. Although this Standard does not require specific disclosures about other long-term employee benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

Termination Benefits

162. This Standard deals with termination benefits separately from other employee benefits, because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

163. Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

164. The form of the employee benefit does not determine whether it is in exchange provided for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

(b) Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

165. Indicators that an employee benefit is provided in exchange for services include the following:

(a) The benefit is conditional on future service being provided (including benefits that increase if further service is provided).

(b) The benefit is provided in accordance with the terms of an employee benefit plan.

166. Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

167. Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

168. **An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates:**

(a) **When the entity can no longer withdraw the offer of those benefits; and**

(b) **When the entity recognizes costs for a restructuring that is within the scope of IPSAS 19 and involves the payment of termination benefits.**

169. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) When the employee accepts the offer; and

(b) When a restriction (e.g., a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

170. For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

171. When an entity recognizes termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 105).

Measurement

172. **An entity shall measure termination benefits on initial recognition, and shall measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:**

(a) **If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognized, the entity shall apply the requirements for short-term employee benefits.**

(b) **If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity shall apply the requirements for other long-term employee benefits.**

173. Because termination benefits are not provided in exchange for service, paragraphs 72–76 relating to the attribution of the benefit to periods of service are not relevant.

Disclosure

174. Although this Standard does not require specific disclosures about termination benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

Transitional Provisions

175. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except that:**

   (a) **An entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.**

   (b) **In financial statements for periods beginning before January 1, 2018, an entity need not present comparative information for the disclosures required by paragraph 147 about the sensitivity of the defined benefit obligation.**

Effective Date

176. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2018. Earlier adoption is encouraged. If an entity applies this Standard for a period beginning before January 1, 2018, it shall disclose that fact.**

177. When an entity adopts the accrual basis IPSASs 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 IPSASs.

Withdrawal and Replacement of IPSAS 25 (2008)

178. This Standard supersedes IPSAS 25, *Employee Benefits* (2008). IPSAS 25 remains applicable until IPSAS 39 is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 39.

Example Illustrating Paragraph 19: Accounting for Performance-Related Bonus Plan

AG1. A performance-related bonus plan requires a government printing unit to pay a specified proportion of its surplus for the year to employees who meet predetermined performance targets and serve throughout the year, i.e., are in post on both the first and last day of the reporting period. If no employees leave during the year, the total bonus payments for the year will be 3% of actual surplus. The entity determines that staff turnover will reduce the payments to 2.5% of actual surplus.

The entity recognizes a liability and an expense of 2.5% of actual surplus.

Example Illustrating Paragraph 37: Accounting for a Multi-Employer Plan

AG2. Along with similar entities in State X, Local Government Unit A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan, there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual local government units participating in the plan. Local Government Unit A therefore accounts for the plan as if it were a defined contribution plan. A funding valuation, which is not drawn up on the basis of assumptions compatible with the requirements of this Standard, shows a deficit of CU480 million[(a)] in the plan. The plan has agreed, under a binding arrangement, a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. Local Government Unit A's total contributions under the contract are CU40 million.

The entity recognizes a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.

(a) In this Standard monetary amounts are denominated in "currency units (CU)".

Example Illustrating Paragraph 70: Projected Unit Credit Method

AG3. A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is CU10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year five, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:					
– *prior years*	*0*	*131*	*262*	*393*	*524*
– *current year (1% of final salary)*	*131*	*131*	*131*	*131*	*131*
– *current and prior years*	*131*	*262*	*393*	*524*	*655*
Year	*1*	*2*	*3*	*4*	*5*
Opening obligation	–	*89*	*196*	*324*	*476*
Interest at 10%	–	*9*	*20*	*33*	*48*
Current service cost	*89*	*98*	*108*	*119*	*131*
Closing obligation	*89*	*196*	*324*	*476*	*655*

Note:

1. *The opening obligation is the present value of benefit attributed to prior years.*
2. *The current service cost is the present value of benefit attributed to the current year.*
3. *The closing obligation is the present value of benefit attributed to current and prior years.*

Examples Illustrating Paragraph 73: Attributing Benefit to Years of Service

AG4. A defined benefit plan provides a lump sum benefit of CU100 payable on retirement for each year of service.

A benefit of CU100 is attributed to each year. The current service cost is the present value of CU100. The present value of the defined benefit obligation is the present value of CU100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

AG5. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted, because pension payments begin at the age of 65.

Examples Illustrating Paragraph 74: Vesting and Non-Vesting Benefits

AG6. A plan pays a benefit of CU100 for each year of service. The benefits vest after 10 years of service.

A benefit of CU100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

AG7. A plan pays a benefit of CU100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of CU100 is attributed to each subsequent year.

Examples Illustrating Paragraph 75: Attributing Benefits to Accounting Periods

AG8. A plan pays a lump sum benefit of CU1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A benefit of CU100 (CU1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

AG9. A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of CU100 (CU2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (CU2,000 divided by 20) to each of the first 20 years.

For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of CU200 (CU2,000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

AG10. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

AG11. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 73. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

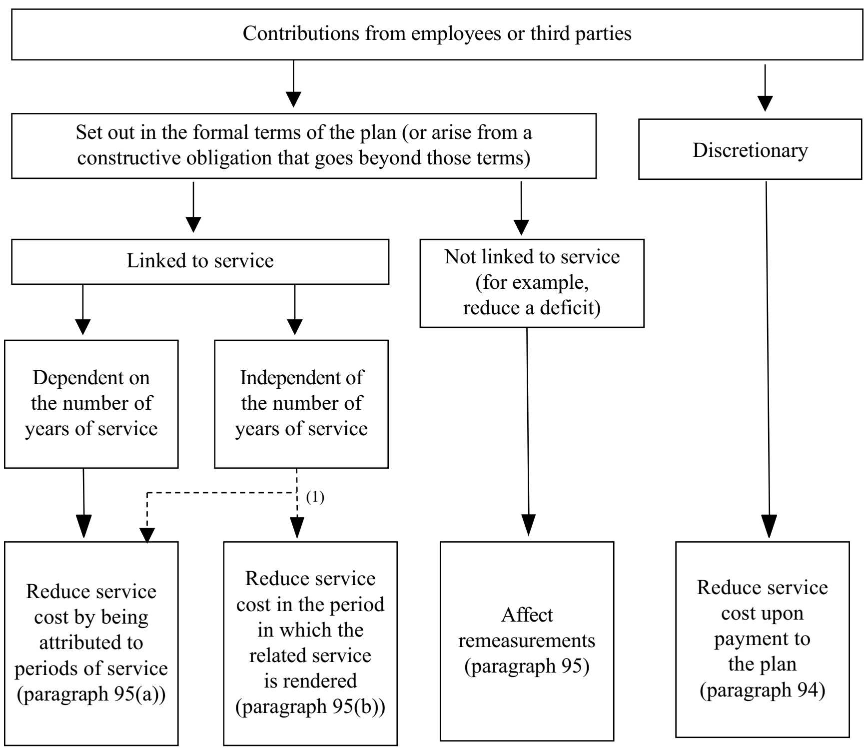
Example Illustrating Paragraph 76: Attributing Benefits to Accounting Periods

AG12. Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Example Illustrating Paragraphs 94 and 95: Contributions from employees or third parties

AG13. The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that an entity is permitted to choose either accounting

Example Illustrating Paragraphs 162-173: Termination Benefits

AG14. Background

As a result of a recent acquisition, an entity plans to close a factory in 10 months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of CU30,000. Employees leaving before closure of the factory will receive CU10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are CU3,200,000 (i.e., 20 × CU10,000 + 100 × CU30,000). As required by paragraph 163, the entity accounts for benefits provided for termination of employment as termination benefits and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

The benefit provided for termination of employment is CU10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (i.e., all employees will leave employment when the factory closes). Therefore the entity recognizes a liability of CU1,200,000 (i.e., 120 × CU10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognizes the restructuring costs associated with the closure of the factory.

Benefits provided for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the reporting period. In this example, discounting is not required, so an expense of CU200,000 (i.e., CU2,000,000 ÷ 10) is recognized in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

Appendix B

Amendments to Other IPSASs

IPSAS 1, *Presentation of Financial Statements*

Paragraph 116 is amended. New text is underlined and deleted text is struck through.

116. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 115, employee benefits has the same meaning as in IPSAS ~~25~~ 39, *Employee Benefits*.

IPSAS 17, *Property, Plant, and Equipment*

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

31. Examples of directly attributable costs are:

    (a) Costs of employee benefits (as defined in IPSAS ~~25~~ 39, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant, and equipment;

    …

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

Paragraph 14 is amended. New text is underlined and deleted text is struck through.

14. This Standard does not apply to provisions for income taxes or income tax equivalents (guidance on accounting for income taxes is found in IAS 12, *Income Taxes*.) Nor does it apply to provisions arising from employee benefits (guidance on accounting for employee benefits is found in IPSAS ~~25~~ 39, *Employee Benefits*.)

IPSAS 20, *Related Party Disclosures*

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

38. Requirements on the measurement of employee benefits are found in IPSAS ~~25~~ 39, *Employee Benefits*. When non-monetary remuneration that is able to be reliably measured has been included in the aggregate amount of remuneration of key management personnel disclosed for the period, disclosure would also be made in the notes to the financial statements of the basis of measurement of the non-monetary remuneration.

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

Paragraph 43 is amended. New text is underlined and deleted text is struck through.

43. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining fair value less costs to sell. 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 (as defined in IPSAS ~~25~~ 39, *Employee Benefits*,) and costs associated with reducing or reorganizing a business following the disposal of an asset, are not direct incremental costs to dispose of the asset.

IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraph 2 is amended. New text is underlined and deleted text is struck through.

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:**

   (a) **…**

   (g) **Assets arising from employee benefits (see IPSAS ~~25~~ 39, *Employee Benefits*);**

IPSAS 28, *Financial Instruments: Presentation*

Paragraph 3 is amended. New text is underlined and deleted text is struck through.

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:**

   (a) …

   (b) **Employers' rights and obligations under employee benefit plans, to which IPSAS ~~25~~ 39, *Employee Benefits* applies.**

   (c) **…**

IPSAS 29, *Financial Instruments: Recognition and Measurement*

Paragraphs 2 and BC19 are amended. New text is underlined and deleted text is struck through.

2. **This Standard shall be applied by all entities to all types of financial instruments, except:**

   (a) …

(c) **Employers' rights and obligations under employee benefit plans, to which IPSAS ~~25~~ 39, *Employee Benefits* applies.**

(d) **…**

Basis for Conclusions

BC19. There may be cases where an active market exists for financial guarantee contracts equivalent to or similar to that issued. In such cases a fair value should be estimated through observation of that active market. Where no active market exists, the IPSASB considered whether an entity should be required to move immediately to an approach based on IPSAS 19. The IPSASB noted that many valuation techniques are highly complex and, as noted in paragraphs AG107 and AG108 may give rise to a range of outcomes. It is arguable that the cost of developing such techniques exceeds the benefits to users of the information provided. An approach based on IPSAS 19 may provide a more reliable and understandable measure of an issuer's risk exposure as a result of entering into a financial guarantee contract. The IPSASB also acknowledged that where an entity does not recognize a liability in accordance with IPSAS 19, the entity makes the disclosures required for contingent liabilities in IPSAS 19 unless an outflow of resources is remote. The information provided to users on risk exposure related to financial guarantees provided at nil or nominal consideration also includes the credit risk disclosures in IPSAS 30, *Financial Instruments: Disclosures*. Conversely, the IPSASB acknowledged that there are current IPSASs that require the use of experts, such as actuaries, to develop valuation techniques that are inherently complex, such as IPSAS ~~25~~ 39, *Employee Benefits*. On balance the IPSASB concluded that, in the absence of an active market, entities should be permitted to use a valuation technique that does not rely on an observable market where they are satisfied that such a technique provides a reliable and understandable method of determining a fair value for a financial guarantee contract entered into by an issuer by means of a non-exchange transaction. This is particularly the case for non-standard guarantees where there is limited data available on defaults and credit risk.

IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 3 is amended. New text is underlined and deleted text is struck through.

3. **This Standard shall be applied by all entities to all types of financial instruments, except:**

(a) …

(b) **Employers' rights and obligations under employee benefit plans, to which IPSAS ~~25~~ 39, *Employee Benefits* applies.**

(d) **…**

IPSAS 31, *Intangible Assets*

Paragraphs 6, 35 and 64 are amended. New text is underlined and deleted text is struck through.

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

    (a) …

    (c) Assets arising from employee benefits (see IPSAS ~~25~~ 39, *Employee Benefits*);

    (d) …

35. Examples of directly attributable costs are:

    (a) Costs of employee benefits (as defined in IPSAS ~~25~~ 39) arising directly from bringing the asset to its working condition;

    (b) …

64. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

    (a) …

    (b) Costs of employee benefits (as defined in IPSAS 2539) arising from the generation of the intangible asset;

IPSAS 33, *First-Time Adoption of Accrual Basis IPSASs*

Paragraphs 106, 107 and BC60 are deleted. Paragraphs 36, 102, 104, 105, BC59, BC109, IG50, IG59, IG60, IG61, IG62, IG91, the headings above paragraph 101, BC59 and BC109 and the table in appendix are amended. New text is underlined and deleted text is struck through.

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) **…**

    (d) **Defined benefit plans and other long-term employee benefits (see IPSAS ~~25~~ 39, *Employee Benefits*);**

    (e) **…**

IPSAS ~~25~~ 39, *Employee Benefits*

101. **…**

Defined Benefit Plans and Other Long-Term Employee Benefits

102. **On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:**

(a) **The present value of the obligation at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method; and**

(b) **Minus the fair value, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier) of plan assets (if any) out of which the obligations are to be settled directly~~; and~~.**

~~(c) **Minus any past service cost that shall be recognized in later periods as an expense on a straight-line basis over the average period until the benefits become vested.**~~

103. …

104. The effect of the change in the accounting policy to IPSAS ~~25~~ 39 includes any ~~actuarial gains and losses~~ remeasurements that arose, if any, in earlier periods~~, even if they fall outside the corridor specified in IPSAS 25~~. Under its previous basis of accounting, a first-time adopter may not have recognized and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSASs or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph 102(b) ~~and any past service cost to be recognized in later periods in accordance with paragraph 102(c)~~. This increased liability is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

105. **A first-time adopter shall recognize ~~not separate the cumulative actuarial gains and losses from the inception of the defined benefit plan(s), until the date of adoption of IPSASs into a recognized and unrecognized portion. A~~all cumulative ~~actuarial gains and losses~~ remeasurements ~~shall be recognized~~ in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

~~106. A first-time adopter is not permitted to separate cumulative actuarial gains and losses into recognized and unrecognized portions on adoption of IPSAS 25.All cumulative actuarial gains and losses shall be recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured. This requirement does however not preclude a first-time adopter electing to recognize only parts of its actuarial gains and losses in accordance with paragraphs 105–107 of IPSAS 25 in subsequent reporting periods~~.

~~107. A first-time adopter shall disclose information on experience adjustments in accordance with paragraph 141(p) of IPSAS 25 prospectively on the date of adoption of IPSASs.~~

Basis for Conclusions

IPSAS ~~25~~ 39, *Employee Benefits*

BC59. The IPSASB acknowledged that the recognition and/or measurement of specific liabilities in IPSAS ~~25~~ 39, will be challenging for many public sector entities as new systems may be required and/or existing systems may need to be upgraded. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of assets and liabilities related to defined benefit plans and other long-term employee benefits. To avoid a skewed statement of financial position, the IPSASB further agreed that any plan assets should be recognized and/or measured at the same time as the liabilities. All other employee benefits should be recognized and/or measured on the date of adoption of IPSASs.

~~BC60. The IPSASB further noted that full retrospective application of IPSAS 25 would require a first-time adopter to determine actuarial gains or losses for each year since the inception of the plan in order to determine the net cumulative unrecognized gains or losses at the date of adoption of IPSASs. It was concluded that this would be costly and would not benefit users. A first-time adopter is therefore not required to separate cumulative actuarial gains and losses into recognized and unrecognized portions. All cumulative actuarial gains and losses should be recognized in opening accumulated surplus or deficit.~~

IPSAS ~~25~~ 39, *Employee Benefits*

BC109. The IPSASB also agreed that, where a first-time adopter takes advantage of the exemptions that provide relief for the recognition and/or measurement of liabilities, it should provide information about amounts for the current and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan and adjustments as required by IPSAS ~~25~~39 prospectively.

Implementation Guidance

IG50. To illustrate: Entity A's first transitional IPSAS financial statements are for the period ending December 31, 20X5 with the first-time adopter electing to present comparative information. In terms of its previous basis of accounting the following transactions and events are noted in entity A's financial statements for December 31, 20X3 and 20X4:

(a) …

Application of Requirements

In preparing its opening statement of financial position at January 1, 20X4 and in its comparative statement of financial position at December 31, 20X4, entity A:

(a) …

(b) Makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with IPSAS ~~25~~ 39, *Employee Benefits*. Entity A's actuarial assumptions at January 1, 20X4 and December 31, 20X4 do not reflect conditions that arose after those dates. For example, entity A's:

(i) …

IPSAS ~~25~~ 39, Employee Benefits

IG59. At the date of adoption of IPSASs, a first-time adopter applies IPSAS ~~25~~ 39 in measuring defined benefits plans and other long-term employee benefits, and recognizes all cumulative actuarial gains or losses from the inception of the plan until 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 from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier)~~, even if its accounting policy in accordance with IPSAS 25 will involve leaving~~

~~some later actuarial gains and losses unrecognized (see paragraph 105 of IPSAS 33)~~.

IG60. A first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier), are consistent with actuarial assumptions made at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33) in accordance with its previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 23 of the IPSAS 33). Any later revisions to those assumptions are an actuarial gain or loss of the period in which the first-time adopter makes the revisions.

IG61. A first-time adopter may need to make actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier), that were not necessary in accordance with its basis of accounting. Such actuarial assumptions do not reflect conditions that arose after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier). In particular, discount rates and the fair value of plan assets at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the liabilities are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier), reflect market conditions at that date. Similarly, the first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier), about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier) (paragraph 23 of IPSAS 33).

IG62. In many cases, a first-time adopter's transitional IPSAS financial statements or its first IPSAS financial statements will reflect measurements of employee benefit obligations at three dates (where a first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33): the end of the first reporting period, the date of the comparative statement of financial position (where the first-time adopter elects to present comparative information) and the date of adoption of IPSASs, or where the first-time adopter takes advantages of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS ~~25~~ 39 (whichever is earlier). IPSAS ~~25~~ 39 encourages the first-time adopter to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimize costs, a first-time adopter may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (paragraph ~~68~~ 61 of IPSAS ~~25~~ 39).

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

	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 measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 25, *Employee Benefits* (IPSAS 39, *Employee Benefits)*			✓ defined benefit plans and other long-term employee benefits not recognized under previous basis of accounting	✓ for defined benefit and other long-term employee benefits recognized under previous basis of accounting				• Provisions on how to determine initial liability • Provision to not separate cumulative actuarial gains and losses • Prospective disclosure on experience adjustments

Appendix A

…

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 25 <u>(IPSAS 39)</u>			✓
• Three year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities			
• Determine initial liability for defined benefit and other long-term employee benefit plans on date of adoption or when relief period expired	✓		
• Recognize increase/decrease on date of adoption or when relief period expires in opening accumulated surplus/deficit	✓		

IPSAS 35, *Consolidated Financial Statements*

Paragraph 6 is amended. New text is underlined and deleted text is struck through.

6. This Standard does not apply to post-employment benefit plans or other long-term employee benefit plans to which IPSAS ~~25~~ 39, *Employee Benefits* applies.

IPSAS 38, *Disclosure of Interests in Other Entities*

Paragraph 4 is amended. New text is underlined and deleted text is struck through.

4. **This Standard does not apply to:**

   (a) **Post-employment benefit plans or other long-term employee benefit plans to which IPSAS ~~25~~ 39, *Employee Benefits* applies.**

   (b) …

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 39.

Objective

BC1. IPSAS 25 (2008), Employee Benefits, was drawn primarily from International Accounting Standard (IAS) 19 (2004), Employee Benefits, issued by the International Accounting Standards Board (IASB). The IASB made a number of amendments to IAS 19 in the 2011-2015 period.

BC2. In order to update IPSAS 25, the IPSASB approved a limited scope review of IPSAS 25 to converge with the revised IAS 19. The IPSASB decided not to reopen the public sector specific requirements in IPSAS 25, except for the section on Composite Social Security Programs (see paragraphs BC5 and BC6 below).

BC3. In January 2016, the IPSASB issued Exposure Draft (ED) 59, *Amendments to IPSAS 25, Employee Benefits.* ED 59 proposed amendments to maintain convergence with IAS 19. The proposed amendments made a large number of changes to the text of IPSAS 25. A number of respondents expressed reservations that the scale of these changes impaired the understandability of IPSAS 25. The IPSASB therefore decided to issue a new IPSAS 39, *Employee Benefits*, rather than a revised IPSAS 25, in order to help preparers.

BC4. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 39, *Employee Benefits*. With the exception of Composite Social Security Programs, the Basis for Conclusions only considers those areas where IPSAS 39 departs from the main requirements of IAS 19 (amended in 2011 onwards), or where the IPSASB considered such departures.

Composite Social Security Programs

BC5. ED 59 indicated that the IPSASB was considering the deletion of the section on Composite Social Security Programs, because the IPSASB was not aware that it had been applied in any jurisdiction. The IPSASB specifically asked for comments on this issue.

BC6. No respondent to ED 59 identified a jurisdiction where entities applied these requirements. The majority of respondents supported the deletion of the section on Composite Social Security Programs. As the IPSASB did not identify a new and compelling reason to retain the section, the IPSASB decided not to include it in IPSAS 39.

State Plans

BC7. This Standard retains the requirement in IAS 19 that an entity accounts for a state plan in the same way as for a multi-employer plan. The IPSASB concluded that it should provide further commentary to clarify the approach to accounting for state plans by public sector entities as in IPSAS 25. Paragraph 47 provides a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Only where that presumption is rebutted is the state plan accounted for as a defined contribution plan.

Defined Benefit Plans with Participating Entities under Common Control

BC8. In the public sector, there are likely to be many cases where entities under common control participate in defined benefit plans. IAS 19 includes commentary on defined benefit plans that share risks between entities under common control. The IPSASB considered that the requirements in IAS 19 are appropriate in the public sector. The IPSASB also considered it appropriate to emphasize that, unless there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole to an individual entity, it is inappropriate for controlled entities to account on a defined benefit basis as in IPSAS 25. In such cases, the controlling entity should account for such plans on a defined benefit basis in its consolidated financial statements. Controlled entities (a) account on a defined contribution basis, (b) identify the controlling entity, and (c) disclose that the controlling entity is accounting on a defined benefit basis in its consolidated financial statements. This is reflected in paragraph 42. Controlled entities also make the disclosures specified in paragraph 151.

Discount Rates

BC9. IAS 19 requires adoption of a discount rate based on the market yields at the end of the reporting period on high quality corporate bonds. The IPSASB decided that the discount rate should reflect the time value of money, and considered that entities should be left to determine the rate that best achieves that objective in the same way as in IPSAS 25. The IPSASB considered that the time value of money may be best reflected by reference to market yields on government bonds, high quality corporate bonds, or any other financial instrument. The discount rate used is not intended to incorporate the risk associated with defined benefit obligations or entity-specific credit risk. There is an additional disclosure requirement at paragraph 141(d) informing users of the basis on which the discount rate has been determined.

BC10. The IPSASB considered whether it should provide guidance to assist entities operating in jurisdictions where there is neither a deep market in government bonds nor a deep market in high quality corporate bonds to determine a discount rate that reflects the time value of money. The IPSASB acknowledges that determination of an appropriate discount rate is likely to be a difficult issue for entities operating in such jurisdictions, and that such entities may be in the process of migrating, or have recently migrated, to the accrual basis of accounting. However, the IPSASB concluded that this is not an issue that applies only in the public sector, and that there is an insufficiently clear public sector-specific reason to provide such guidance.

Other Long-Term Employee Benefits: Long-Term Disability Benefits

BC11. IAS 19 lists long-term disability benefits as an example of an "other long-term employee benefit." IAS 19 states that "the measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits." In the public sector, disability benefits related to certain areas of service provision, such as the military, may be financially highly significant, and related actuarial gains or losses volatile.

BC12. Therefore, IPSAS 39 retains the rebuttable presumption included in IPSAS 25 that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for using the same requirements as for post-employment benefits.

Other Long-Term Employee Benefits: Compensation Payable by the Reporting Entity until an Individual Enters New Employment

BC13. Although it does not consider it likely that such circumstances are widespread, the IPSASB acknowledged that there may be cases where a reporting entity is contractually bound to make compensation payments separate from a termination benefit to a past employee until he/she enters new employment. The list of other long-term benefits in paragraph 155 was therefore amended to include such circumstances, as in IPSAS 25.

Remeasurements

BC14. IAS 19 (amended in 2011) recognizes remeasurements of the net defined liability (asset) in other comprehensive income rather than in profit or loss. The IPSASB noted that *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* does not acknowledge "other comprehensive income", and that "other comprehensive income" is not a defined term in IPSAS 1, *Presentation of Financial Statements*. The IPSASB considered that recognizing remeasurements in net assets/equity would have the same accounting outcome as IAS 19 in not impacting surplus or deficit with components of defined benefit cost that have different predictive values. Therefore, the IPSASB decided to recognize remeasurements in net assets/equity rather than surplus or deficit.

BC15. The IPSASB noted that paragraph 45 of IPSAS 1 requires an entity to present each material class of similar items separately in the financial statements. Items of a dissimilar nature or function are presented separately, unless they are immaterial. Therefore, the IPSASB considered that a separate presentation of remeasurements of post-employment benefits may be required in the statement of changes in net assets/equity, if it is material.

Requirements of Government Finance Statistics Reporting Guidelines

BC16. The IPSASB considered the requirements of Government Finance Statistics (GFS) reporting guidelines on the classification, presentation, recognition, measurement and disclosure of employee benefits and identified some differences with both the revised IAS 19 and with IPSAS 39.

BC17. GFS reporting guidelines do not apply the net interest approach, but rather recognize the proceeds of fund assets and interest on fund liabilities according to the economic nature of these revenues and expenses. GFS then attributes the property income and the increase in the liability for benefit entitlements due to the passage of time through an entry in "property expense for investment income disbursements". In IPSAS 39 equivalent entries are presented in surplus or deficit.

BC18. For autonomous funds recognized outside the employer's accounts, GFS recognizes a claim of the pension fund on the pension manager for deficits of the pension fund in specific circumstances. In these cases, GFS does not require the recognition of an interest expense in the employers' accounts due to the passage of time in recognizing that claim.

BC19. In GFS, the plan assets are generally measured on the same basis as other assets, which is normally market value. Therefore, unlike IPSAS 39, no additional calculation to include the discount rate in the plan assets as a whole is necessary to estimate present value. However, in GFS some assets are not measured at market value. This may give rise to different valuations between IPSAS 39 and GFS (for example: loans are measured at nominal value in GFS and usually at amortized cost in IPSAS).

BC20. In GFS, any changes in the volume or value of assets that do not result from transactions are recorded in the Statement of Other Economic Flows, which includes the effect of the passage of time. In GFS, the pension fund only records actual revenue from transactions such as interest, dividends and rents in the Statement of Operations.

BC21. GFS does not disaggregate employee benefits into short-term and long-term employee benefits and does not require specific disclosures on employee benefits, except for the supplementary table on pension schemes in social insurance specified in the System of National Accounts 2008.

BC22. The IPSASB concluded that these differences are due to the different objectives and presentational frameworks of IPSAS and GFS. They do not constitute public sector specific reasons that warrant departure from IAS 19.

Comparison with IAS 19

IPSAS 39 is drawn primarily from IAS 19 (issued in 2011, including amendments up to December 31, 2015). The main differences between IPSAS 39 and IAS 19 are as follows:

- IPSAS 39 contains additional guidance on public sector bonus plans.
- For discounting post-employment obligations, IAS 19 requires entities to apply a discount rate based on yields on high quality corporate bonds consistent with the currency and estimated term of the post-employment benefit obligations. The requirement in IPSAS 39 is that entities apply a rate that reflects the time value of money. IPSAS 39 also contains a requirement that entities disclose the basis on which the discount rate has been determined.
- IPSAS 39 includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in the same way as for post-employment benefits. IAS 19 does not include such a rebuttable presumption.
- IPSAS 39 recognizes remeasurements of the net defined benefit liability (asset) in net assets/equity. IAS 19 recognizes them in other comprehensive income.
- IPSAS 39 uses different terminology, in certain instances, from IAS 19. The most significant examples are the use of the terms “revenue”, “controlling” and “controlled entities”. The equivalent terms in IAS 19 are “income”, “parent” and “subsidiaries”.

IPSAS 40—PUBLIC SECTOR COMBINATIONS

Acknowledgment

The acquisition accounting requirements of this International Public Sector Accounting Standard (IPSAS) draw upon International Financial Reporting Standard (IFRS) 3, *Business Combinations,* published by the International Accounting Standards Board (IASB). Extracts from IFRS 3 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 40—PUBLIC SECTOR COMBINATIONS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2017.

IPSAS 40, *Public Sector Combinations* was issued in January 2017.

IPSAS 40—PUBLIC SECTOR COMBINATIONS

CONTENTS

International Public Sector Accounting Standard 40, *Public Sector Combinations*, is set out in paragraphs 1–62. All the paragraphs have equal authority. IPSAS 40 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. To accomplish that, this Standard establishes principles and requirements for how:

   (a) A reporting entity classifies a public sector combination as an amalgamation or an acquisition;

   (b) A resulting entity recognizes and measures in its financial statements the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;

   (c) A resulting entity recognizes and measures components of net assets/equity and other adjustments recognized in an amalgamation;

   (d) An acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;

   (e) An acquirer recognizes and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and

   (f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a public sector combination.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for public sector combinations.**

3. **This Standard applies to a transaction or other event that meets the definition of a public sector combination. This Standard does not apply to:**

   (a) **The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.**

   (b) **The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity shall identify and recognize the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in IPSAS 31, *Intangible Assets*) and liabilities assumed. Such a transaction or event does not give rise to goodwill.**

(c) **The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity shall identify and recognize the individual liabilities assumed.**

4. **The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in IPSAS 35, *Consolidated Financial Statements*, of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.**

Definitions

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

A public sector combination is the bringing together of separate operations into one public sector entity.

General Definitions Related to All Public Sector Combinations

For the purposes of this Standard, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.

An asset is identifiable if it either:

(a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A mutual entity is an entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.

An operation is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

For the purposes of this Standard, owners is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.

A public sector combination under common control is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.

Definitions Related to Amalgamations

An amalgamation gives rise to a resulting entity and is either:

(a) A public sector combination in which no party to the combination gains control of one or more operations; or

(b) A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.

(Paragraph AG1 provides additional guidance.)

The amalgamation date is the date on which the resulting entity obtains control of the combining operations.

A combining operation is an operation that combines with one or more other operations to form the resulting entity in an amalgamation.

A resulting entity is the entity that is the result of two or more operations combining in an amalgamation (paragraph AG1 provides additional guidance).

Definitions Relating to Acquisitions

An acquired operation is the operation that the acquirer gains control of in an acquisition.

An acquirer is the entity that gains control of one or more operations in an acquisition.

An acquisition is a public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.

The acquisition date is the date on which the acquirer gains control of the acquired operation.

Contingent consideration is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.

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.

Identifying a Public Sector Combination

6. **An entity shall determine whether a transaction or other event is a public sector combination by applying the definitions in this Standard, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the entity shall account for the transaction or other event in accordance with other IPSASs. Paragraphs AG2–AG9 provide guidance on identifying a public sector combination.**

Classification of Public Sector Combinations

7. **If no party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation. Paragraphs AG10–AG18 provide guidance on determining whether one party to a public sector combination gains control of one or more operations as a result of that combination.**

8. **If one party to a public sector combination gains control of one or more operations as a result of the combination, an entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of one or more operations shall be classified as an acquisition, unless it has the economic substance of an amalgamation.**

9. **In determining the classification of the public sector combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting and that satisfies the qualitative characteristics (QCs).To assess the economic substance of the combination, an entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation. Paragraphs AG19–AG39 provide additional guidance.**

10. An analysis of the indicators relating to consideration and to the decision-making process in paragraphs 12–13 will usually produce a conclusive result and provide sufficient evidence about the economic substance of the public

sector combination to determine whether the combination is an amalgamation. In such circumstances, the resulting classification and the associated accounting treatment will ensure that users have access to information that meets the objectives of financial reporting and that satisfies the QCs.

11. In exceptional circumstances, after applying the indicators in paragraphs 12–13, the results may be inconclusive or may not provide sufficient evidence about the economic substance of the public sector combination. In such circumstances, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the QCs, having regard to paragraph 14. Paragraphs AG40–AG41 provide additional guidance.

Indicators that May Provide Evidence that the Combination is an Amalgamation

Indicators Relating to Consideration

12. The following indicators may provide evidence that the combination is an amalgamation:

    (a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);

    (b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or

    (c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).

Indicators Relating to the Decision-Making Process

13. The following indicators may provide evidence that the combination is an amalgamation:

    (a) A public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process (paragraphs AG32–AG35 provide additional guidance);

    (b) A public sector combination is subject to approval by each party's citizens through referenda (paragraph AG36 provides additional guidance); or

    (c) A public sector combination under common control occurs (paragraphs AG37–AG39 provide additional guidance).

Additional matters to be taken into account where the indicators relating to consideration and the decision-making process do not provide sufficient evidence to determine whether the combination is an amalgamation

14. The analysis of the indicators relating to consideration and the decision-making process may, in exceptional circumstances, produce inconclusive results or not provide sufficient evidence to determine whether the combination is an amalgamation, based on the economic substance of the public sector combination and the indicators in paragraphs 12–13. In such circumstances, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46 provide additional guidance. An entity also considers which classification and resulting accounting treatment would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance.

Accounting for Amalgamations

15. **A resulting entity shall account for each amalgamation by applying the modified pooling of interests method of accounting.**

The Modified Pooling of Interests Method of Accounting

16. Applying the modified pooling of interests method of accounting requires:

    (a) Identifying the resulting entity;

    (b) Determining the amalgamation date;

    (c) Recognizing and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in IPSASs; and

    (d) Recognizing and measuring the components of net assets/equity and other adjustments from an amalgamation.

Identifying the Resulting Entity

17. **For each amalgamation, a resulting entity shall be identified.**

18. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." The resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation.

Determining the Amalgamation Date

19. **The resulting entity shall identify the amalgamation date, which is the date on which it obtains control of the combining operations.**

20. The date on which the resulting entity obtains control of the combining operations may be the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations. It is possible that the resulting entity will not receive legal title to the assets or assume legal responsibility for the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a different date. For example, legislation or a written agreement may provide that the resulting entity obtains control of the assets and liabilities of the combining operations on a specified date. A resulting entity shall consider all pertinent facts and circumstances in identifying the amalgamation date.

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

Recognition Principle

21. **As of the amalgamation date, the resulting entity shall recognize the identifiable assets, liabilities and any non-controlling interests that are recognized in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets and liabilities received is subject to the conditions specified in paragraphs 22–23.**

Recognition Conditions

22. **The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity (paragraphs AG51–AG52 provide related application guidance).**

23. To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* at the amalgamation date. For example, costs that the resulting entity expects, but is not obliged, to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the amalgamation date. Therefore, the resulting entity does not recognize those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognizes those costs in its post-combination financial statements in accordance with other IPSASs.

Classifying or Designating Assets and Liabilities in an Amalgamation

24. **At the amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining**

operations. A resulting entity shall not adopt different classifications or designations on initial recognition, even if this is permitted by other IPSASs.

25. In some situations, IPSASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the resulting entity shall make on the basis of the classifications or designations previously applied by the combining operations include but are not limited to:

(a) Classification of particular financial assets and liabilities as measured at fair value or at amortized cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*;

(b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 29; and

(c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 29 (which is a matter of 'classification' as this Standard uses that term).

Measurement Principle

26. **The resulting entity shall measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirements of paragraph 27 (paragraphs AG53–AG54 provide related application guidance).**

27. **As of the amalgamation date, the resulting entity shall adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.**

28. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of IPSASs, is adopted by that entity, and the carrying amounts of the identifiable assets and liabilities of the combining operations are adjusted, where required, to conform to those accounting policies.

29. The resulting entity shall measure any non-controlling interests in a combining operation at their carrying amounts in the financial statements of that combining operation as of the amalgamation date, adjusted for the non-controlling interests' proportionate share of the adjustments made in accordance with paragraph 27.

30. Paragraphs 33–35 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

31. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 32–35 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity shall account for those items by applying the requirements in paragraphs 32–35, which will result in some items being:

    (a) Recognized either by applying recognition conditions in addition to those in paragraphs 22–23 or by applying the requirements of other IPSASs, with results that differ from applying the recognition principle and conditions.

    (b) Measured at an amount other than their amalgamation date carrying amounts.

Exception to the Recognition Principle

Licenses and similar rights previously granted by one combining operation to another combining operation

32. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset by the recipient combining operation shall be recognized by the resulting entity as an intangible asset. The license or similar right shall not be eliminated in accordance with paragraph 22 (paragraphs AG55–AG56 provide related application guidance).

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

33. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax due as part of the terms of the amalgamation. The resulting entity shall not recognize any taxation items that are forgiven as a result of the terms of the amalgamation (paragraphs AG57–AG58 provide related application guidance).

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Employee Benefits

35. The resulting entity shall recognize and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with IPSAS 39, *Employee Benefits*.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

36. **An amalgamation does not give rise to goodwill (paragraphs AG59–AG60 provide related application guidance).**

37. **The resulting entity shall recognize within net assets/equity amounts equal and opposite to the following items:**

    (a) **The carrying amounts of the combining operations' assets**;

    (b) **The carrying amounts of the combining operations' liabilities; and**

    (c) **The carrying amounts of the combining operations' non-controlling interests.**

38. **The resulting entity shall recognize within net assets/equity the corresponding adjustments in respect of:**

    (a) **The elimination of transactions between combining operations in accordance with paragraph 22;**

    (b) **Adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies, in accordance with paragraph 27; and**

    (c) **Adjustments made in respect of the exceptions to the recognition and/or measurement principles, in accordance with paragraphs 32–35.**

39. **The resulting entity may present the amounts recognized within net assets/equity in accordance with paragraphs 37 and 38 as either:**

    (a) **A single opening balance; or**

    (b) **As separate components of net assets/equity.**

Measurement Period

40. **If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity shall retrospectively adjust the provisional amounts recognized at the amalgamation date to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the resulting entity shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the amalgamation date and, if known,**

would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the resulting entity receives the information it was seeking about facts and circumstances that existed as of the amalgamation date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the amalgamation date.

41. The measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognized for an amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations as of the amalgamation date in accordance with the requirements of this Standard. The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations will generally be available at the amalgamation date. However, this may not be the case where combining operations have previously prepared their financial statements using different accounting policies.

42. The resulting entity recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by adjusting components of net assets/equity recognized in accordance with paragraphs 37–38. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to the gain or loss resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

43. During the measurement period, the resulting entity shall recognize adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the amalgamation date. Thus, the resulting entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation or amortization recognized in completing the initial accounting.

44. After the measurement period ends, the resulting entity shall revise the accounting for an amalgamation only to correct an error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Amalgamation-Related Costs

45. Amalgamation-related costs are costs the resulting entity or combining operations incur to effect an amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining operations shall account for amalgamation-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IPSAS 28, *Financial Instruments: Presentation*, and IPSAS 29.

Subsequent Measurement and Accounting

46. In general, a resulting entity shall subsequently measure and account for assets and liabilities received and equity instruments issued in an amalgamation in accordance with other applicable IPSASs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets received and liabilities assumed or incurred in an amalgamation:

    (a) Licenses and similar rights previously granted by one combining operation to another combining operation;

    (b) Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation; and

    (c) Income taxes (where not included in the terms of the amalgamation).

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation

47. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. A resulting entity that subsequently sells this license or similar right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

48. A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an

amalgamation, shall be reassessed prospectively in accordance with other IPSASs (paragraphs AG61–AG63 provide related application guidance).

Income Taxes (Where not Included in the Terms of the Amalgamation)

49. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the amalgamation. The resulting entity shall account for the tax forgiven prospectively in accordance with the relevant international or national accounting standard dealing with income taxes.

Presentation of Financial Statements

50. **Except where a resulting entity is not a new entity following a public sector combination, the resulting entity's first set of financial statements following the amalgamation shall comprise:**

   (a) **An opening statement of financial position as of the amalgamation date;**

   (b) **A statement of financial position as at the reporting date;**

   (c) **A statement of financial performance for the period from the amalgamation date to the reporting date;**

   (d) **A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;**

   (e) **A cash flow statement for the period from the amalgamation date to the reporting date;**

   (f) **If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and**

   (g) **Notes, comprising a summary of significant accounting policies and other explanatory notes.**

51. **Where a resulting entity is not a new entity following a public sector combination, the resulting entity shall disclose:**

   (a) **The amounts recognized of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;**

   (b) **Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and**

(c) **Any adjustments made to eliminate transactions between the combining operations.**

52. Subject to the requirements in paragraphs 54 and 56, the resulting entity is permitted but not required to present financial statements for periods prior to the amalgamation date (paragraphs AG64–AG65 provide related application guidance). Where a resulting entity elects to present financial statements for periods prior to the amalgamation date, it shall disclose the information required by paragraph 54(g).

Disclosures

53. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.**

54. To meet the objective in paragraph 53, the resulting entity shall disclose the following information for each amalgamation that occurs during the reporting period:

(a) The name and a description of each combining operation.

(b) The amalgamation date.

(c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.

(d) The amounts recognized as of the amalgamation date for each major class of assets and liabilities transferred.

(e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:

(i) To eliminate the effect of transactions between combining operations in accordance with paragraph 22; and

(ii) To conform to the resulting entity's accounting policies in accordance with paragraph 27.

(f) An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognized in accordance with paragraphs 37–38.

(g) If a resulting entity elects to present financial statements for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity shall disclose the following information for each combining operation:

(i) A statement of financial position as at the end of the prior period(s);

(ii) A statement of financial performance for the prior period(s);

(iii) A statement of changes in net assets/equity for the prior period(s);

(iv) A cash flow statement for the prior period(s); and

(v) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The resulting entity shall not restate this information, but shall disclose the information on the same basis as used in the combining operations' financial statements. The resulting entity shall disclose the basis on which this information is presented.

(h) If, at the time the financial statements of the resulting entity are authorized for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:

(i) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analyzed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of IPSAS 1, *Presentation of Financial Statements*. The amounts of expense shall be analyzed using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant, in accordance with paragraph 109 of IPSAS 1.

(ii) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.

(iii) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity is not required to disclose this information where it has elected to present financial statements for periods prior to the amalgamation date as specified in subparagraph (g) above.

55. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.**

56. To meet the objective in paragraph 55, the resulting entity shall disclose the following information:

(a) If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognized in the financial statements for the amalgamation thus have been determined only provisionally:

(i) The reasons why the initial accounting for the amalgamation is incomplete;

(ii) The assets or liabilities for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 43.

(b) If amounts of tax due are forgiven as a result of the terms of the amalgamation (see paragraphs 33–34):

(i) The amount of tax due that was forgiven; and

(ii) Where the resulting entity is the tax authority, details of the adjustment made to tax receivable.

57. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 53 and 55, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.

Accounting for Acquisitions

58. **An acquirer shall account for each acquisition by applying the acquisition method of accounting.**

The Acquisition Method of Accounting

59. Applying the acquisition method of accounting requires:

(a) Identifying the acquirer;

(b) Determining the acquisition date;

(c) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and

(d) Recognizing and measuring goodwill, a gain or a loss from an acquisition.

Identifying the Acquirer

60. **For each acquisition, the party to the combination that gains control of one or more operations shall be identified as the acquirer.**

61. The party to the combination that gains control of one or more operations is identified when determining the classification of the public sector combination in accordance with paragraphs 7, 8 and AG10–AG18.

Determining the Acquisition Date

62. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.**

63. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration and/or acquires the assets and assumes the liabilities of the acquired operation—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquired operation on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

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

Recognition Principle

64. **As of the acquisition date, the acquirer shall recognize, separately from any goodwill recognized, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 65 and 66.**

Recognition Conditions

65. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* at the acquisition date, and be capable of being measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reporting. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquired operation or to terminate the employment of or relocate an acquired operation's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the

acquirer recognizes those costs in its post-combination financial statements in accordance with other IPSASs.

66. In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 109–111 to determine which assets acquired or liabilities assumed are part of the exchange for the acquired operation and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable IPSASs.

67. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquired operation had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a patent or a customer relationship, that the acquired operation did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.

68. Paragraphs AG72–AG84 provide guidance on recognizing operating leases and intangible assets. Paragraphs 76–82 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

69. **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other IPSASs. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**

70. In some situations, IPSASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

    (a) Classification of particular financial assets and liabilities as measured at fair value or at amortized cost, in accordance with IPSAS 29;

    (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 29; and

(c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 29 (which is a matter of 'classification' as this Standard uses that term).

71. This Standard provides two exceptions to the principle in paragraph 69:

(a) Classification of a lease arrangement as either an operating lease or a finance lease in accordance with IPSAS 13, *Leases*; and

(b) Classification of a contract as an insurance contract in accordance with the relevant international or national accounting standard dealing with insurance contracts.

The acquirer shall classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement Principle

72. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.**

73. For each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) Fair value; or

(b) The present ownership instruments' proportionate share in the recognized amounts of the acquired operation's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IPSASs.

74. Paragraphs 78–84 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

75. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 76–84 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall

account for those items by applying the requirements in paragraphs 76–84, which will result in some items being:

(a) Recognized either by applying recognition conditions in addition to those in paragraphs 65–66 or by applying the requirements of other IPSASs, with results that differ from applying the recognition principle and conditions.

(b) Measured at an amount other than their acquisition-date fair values.

Exception to the Recognition Principle

Contingent Liabilities

76. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, defines a contingent liability as:

(a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) A present obligation that arises from past events, but is not recognized because:

(i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

77. The requirements in IPSAS 19 do not apply in determining which contingent liabilities to recognize as of the acquisition date. Instead, the acquirer shall recognize as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred if it is a present obligation that arises from past events and its fair value can be measured reliably[1]. Therefore, contrary to IPSAS 19, the acquirer recognizes a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 115 provides guidance on the subsequent accounting for contingent liabilities.

Exceptions to Both the Recognition and Measurement Principles

[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 discusses the transitional approach to the explanation of reliability.

Income Taxes (Where Included in the Terms of the Acquisition)

78. Acquisitions by a public sector entity may result in a tax authority forgiving amounts of tax due as part of the terms of the acquisition. The acquirer shall not recognize any taxation items that are forgiven as a result of the terms of the acquisition (paragraphs AG85–AG87 provide related application guidance).

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with IPSAS 23.

Employee Benefits

80. The acquirer shall recognize and measure a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with IPSAS 39.

Indemnification Assets

81. The seller in an acquisition may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognize the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph AG88 provides related application guidance).

82. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognized at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those

circumstances, the indemnification asset shall be recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 116 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the Measurement Principle

Reacquired Rights

83. The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Paragraphs AG79–AG80 provide related application guidance.

Share-Based Payment Transactions

84. The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquired operation or the replacement of an acquired operation's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the relevant international or national accounting standard dealing with share-based payments.

Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase

85. **The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below, subject to the requirements of paragraph 86:**

    (a) **The aggregate of:**

        (i) **The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph 95);**

        (ii) **The amount of any non-controlling interest in the acquired operation measured in accordance with this Standard; and**

        (iii) **In an acquisition achieved in stages (see paragraphs 99–100), the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.**

    (b) **The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.**

86. **The acquirer shall recognize goodwill only to the extent that the acquisition will result in:**

(a) **The generation of cash inflows (such as the acquisition of a cash-generating operation); and/or**

(b) **A reduction in the net cash outflows of the acquirer.**

An acquirer shall recognize any further excess of (a) over (b) in paragraph 85 above as a loss in surplus or deficit. Paragraph AG93 provides related application guidance.

87. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred (paragraph 85(a)(i)). Paragraph AG94 provides related application guidance.

Bargain Purchases

88. Occasionally in a public sector combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 85(b) exceeds the aggregate of the amounts specified in paragraph 85(a). If that excess remains after applying the requirements in paragraph 90, the acquirer shall recognize the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.

89. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 76–84 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.

90. Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Standard requires to be recognized at the acquisition date for all of the following:

(a) The identifiable assets acquired and liabilities assumed;

(b) The non-controlling interest in the acquired operation, if any;

(c) For an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; and

(d) The consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

91. In the public sector, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers consideration that is not approximately equal to the fair value of the acquired operation. Such circumstances include, but are not limited to:

(a) Compensated seizures of operations or entities; and

(b) The transfer of an operation to the acquirer by a donor for nominal consideration.

92. Where the economic substance of the public sector combination is that of an acquisition, such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 88–90.

A Non-Exchange Acquisition Without the Transfer of Consideration

93. In the public sector, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

(a) Uncompensated seizures of operations or entities (also known as forced nationalizations).

(b) The transfer of an operation to the entity by a donor for no consideration. Such transfers may take the form of a bequest.

And

(c) The transfer of an operation to the entity where the operation has net liabilities. The entity may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as "bailouts".

94. Where the economic substance of the public sector combination is that of an acquisition, the acquirer that obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration does not recognize goodwill. The acquirer recognizes a gain or a loss in surplus or deficit in accordance with paragraph 86.

Consideration Transferred

95. **The consideration transferred in an acquisition shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired operation and the equity interests issued by the acquirer. (However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquired operation's employees that is included in consideration transferred in the acquisition shall be measured in accordance with paragraph 84 rather than at fair value.)** Examples of potential forms of consideration include cash, other assets, an operation or a controlled entity of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

96. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition (for example, because the assets or liabilities were transferred to the acquired operation rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the acquisition.

Contingent Consideration

97. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 95). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.

98. The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as a component of net assets/equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 9 of IPSAS 28. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 117 provides guidance on the subsequent accounting for contingent consideration.

An Acquisition Achieved in Stages

99. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date. For example,

on 31 December 20X1, Entity A holds a 35 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.

100. **In an acquisition achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognize the resulting gain or loss, if any, in surplus or deficit or in net assets/equity, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquired operation in net assets/equity. If so, the amount that was recognized in net assets/equity shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.**

Additional Guidance for Applying the Acquisition Method Where an Acquisition is Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances in Which no Consideration is Transferred

An Acquisition Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances not Involving the Transfer of Consideration

101. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those public sector combinations. Such circumstances include:

   (a) The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.

   (b) Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.

   (c) The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no quantifiable ownership interests in the acquired operation, either on the acquisition date or previously.

102. **In an acquisition achieved by contract alone, the acquirer shall attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognized in accordance with this Standard. In other words, the quantifiable ownership interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the quantifiable ownership interests in the acquired operation are attributed to the non-controlling interest.**

Measurement Period

103. **If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.**

104. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for an acquisition. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:

   (a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;

   (b) The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);

   (c) In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and

   (d) The resulting goodwill, loss, or gain on a bargain purchase.

105. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its

provisional fair value measured at that date is likely to indicate an error in the provisional amount.

106. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquired operation's facilities, part or all of which are covered by the acquired operation's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

107. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.

108. After the measurement period ends, the acquirer shall revise the accounting for an acquisition only to correct an error in accordance with IPSAS 3.

Determining what is Part of the Acquisition Transaction

109. **The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the negotiations that is separate from the acquisition. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired and liabilities assumed in the exchange for the acquired operation. Separate transactions shall be accounted for in accordance with the relevant IPSASs.**

110. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquired operation (or its former owners) before the acquisition, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

(a) A transaction that in effect settles pre-existing relationships between the acquirer and acquired operation;

(b) A transaction that remunerates employees or former owners of the acquired operation for future services; and

(c) A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs AG99–AG106 provide related application guidance.

Acquisition-Related Costs

111. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IPSAS 28 and IPSAS 29.

Subsequent Measurement and Accounting

112. **In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable IPSASs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:**

(a) **Reacquired rights;**

(b) **Contingent liabilities recognized as of the acquisition date;**

(c) **Indemnification assets;**

(d) **Contingent consideration; and**

(e) **Income taxes (where not included in the terms of the acquisition).**

Paragraphs AG107–AG108 provide related application guidance.

Reacquired Rights

113. A reacquired right recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the

right may be impaired. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

114. **A transfer, concessionary loan or similar benefit, previously received by an acquirer or an acquired operation on the basis of criteria that change as a result of an acquisition, shall be reassessed prospectively in accordance with other IPSASs (paragraphs AG109–AG111 provide related application guidance).**

Contingent Liabilities

115. **After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:**

(a) **The amount that would be recognized in accordance with IPSAS 19; and**

(b) **The amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with IPSAS 9, *Revenue from Exchange Transactions*.**

This requirement does not apply to contracts accounted for in accordance with IPSAS 29.

Indemnification Assets

116. **At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset. The acquirer shall derecognize the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.**

Contingent Consideration

117. **Some changes in the fair value of contingent consideration that the acquirer recognizes after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 103–107. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research**

and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as a component of net assets/equity shall not be remeasured and its subsequent settlement shall be accounted for within net assets/equity.

(b) Other contingent consideration that:

   (i) Is within the scope of IPSAS 29 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit in accordance with IPSAS 29.

   (ii) Is not within the scope of IPSAS 29 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit.

Income Taxes (Where not Included in the Terms of the Acquisition)

118. Acquisitions involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the acquisition. The acquirer shall account for the tax forgiven prospectively in accordance with the relevant international or national accounting standard dealing with income taxes.

Disclosures

119. **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:**

(a) **During the current reporting period; or**

(b) **After the end of the reporting period but before the financial statements are authorized for issue.**

120. To meet the objective in paragraph 119, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

(a) The name and a description of the acquired operation.

(b) The acquisition date.

(c) The percentage of voting equity interests or equivalent acquired.

(d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.

(e) A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

(f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

(i) Cash;

(ii) Other tangible or intangible assets, including an operation or controlled entity of the acquirer;

(iii) Liabilities incurred, for example, a liability for contingent consideration; and

(iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(g) For contingent consideration arrangements and indemnification assets:

(i) The amount recognized as of the acquisition date;

(ii) A description of the arrangement and the basis for determining the amount of the payment; and

(iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(h) For acquired receivables:

(i) The fair value of the receivables;

(ii) The gross amounts receivable in accordance with a binding arrangement; and

(iii) The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(i) The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.

(j) For each contingent liability recognized in accordance with paragraph 77, the information required in paragraph 98 of IPSAS 19. If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:

(i) The information required by paragraph 100 of IPSAS 19; and

(ii) The reasons why the liability cannot be measured reliably.

(k) The total amount of goodwill that is expected to be deductible for tax purposes.

(l) For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the acquisition in accordance with paragraph 109:

(i) A description of each transaction;

(ii) How the acquirer accounted for each transaction;

(iii) The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and

(iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) The disclosure of separately recognized transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of financial performance in which those expenses are recognized. The amount of any issue costs not recognized as an expense and how they were recognized shall also be disclosed.

(n) In an acquisition in which a loss is recognized in surplus or deficit (see paragraph 86):

(i) The amount of the loss recognized in accordance with paragraph 86 and the line item in the statement of financial performance in which the loss is recognized; and

(ii) A description of the reasons why the transaction resulted in a loss.

(o) In a bargain purchase (see paragraphs 88–90):

(i) The amount of any gain recognized in accordance with paragraph 88 and the line item in the statement of financial performance in which the gain is recognized; and

(ii) A description of the reasons why the transaction resulted in a gain.

(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:

  (i) The amount of the non-controlling interest in the acquired operation recognized at the acquisition date and the measurement basis for that amount; and

  (ii) For each non-controlling interest in an acquired operation measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

(q) In an acquisition achieved in stages:

  (i) The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and

  (ii) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition (see paragraph 100) and the line item in the statement of financial performance in which that gain or loss is recognized.

(r) The following information:

  (i) The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the acquisition date included in the consolidated statement of financial performance for the reporting period; and

  (ii) The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

  If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in IPSAS 3.

121. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph 120(e)–(r).

122. If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph 120 unless the initial accounting for the acquisition is incomplete at the time the financial statements

are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

123. **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods.**

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:

(a) If the initial accounting for an acquisition is incomplete (see paragraph 103) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the acquisition thus have been determined only provisionally:

(i) The reasons why the initial accounting for the acquisition is incomplete;

(ii) The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 107.

(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:

(i) Any changes in the recognized amounts, including any differences arising upon settlement;

(ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) The valuation techniques and key model inputs used to measure contingent consideration.

(c) For contingent liabilities recognized in an acquisition, the acquirer shall disclose the information required by paragraphs 97 and 98 of IPSAS 19 for each class of provision.

(d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

(i) The gross amount and accumulated impairment losses at the beginning of the reporting period.

(ii) Additional goodwill recognized during the reporting period.

(iii) Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with the relevant international or national accounting standard dealing with income taxes.

(iv) Goodwill derecognized during the reporting period.

(v) Impairment losses recognized during the reporting period in accordance with IPSAS 26, *Impairment of Cash-Generating Assets*. (IPSAS 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

(vi) Net exchange rate differences arising during the reporting period in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*.

(vii) Any other changes in the carrying amount during the reporting period.

(viii) The gross amount and accumulated impairment losses at the end of the reporting period.

(e) The amount and an explanation of any gain or loss recognized in the current reporting period that both:

(i) Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period; and

(ii) Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

And

(f) If amounts of tax due are forgiven as a result of the terms of the acquisition (see paragraphs 78–79):

(i) The amount of tax due that was forgiven; and

(ii) Where the acquirer is the tax authority, details of the adjustment made to tax receivable.

125. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 119 and 123, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Effective Date and Transition

Effective Date

126. **This Standard shall be applied prospectively to public sector combinations for which the amalgamation date or acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies this Standard before January 1, 2019, it shall disclose that fact.**

Transition

127. **Assets and liabilities that arose from public sector combinations whose acquisition dates or amalgamation dates preceded the application of this Standard shall not be adjusted upon application of this Standard.**

128. **Contingent consideration balances arising from acquisitions whose acquisition dates preceded the date when an entity first applied this Standard shall not be adjusted upon first application of this Standard. Paragraphs 129–132 shall be applied in the subsequent accounting for those balances. Paragraphs 129–132 shall not apply to the accounting for contingent consideration balances arising from acquisitions with acquisition dates on or after the date when the entity first applied this Standard. In paragraphs 129–132 acquisitions refers exclusively to acquisitions whose acquisition date preceded the application of this Standard.**

129. **If an acquisition agreement provides for an adjustment to the cost of the acquisition contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the acquisition at the acquisition date if the adjustment is probable and can be measured reliably.**

130. An acquisition agreement may allow for adjustments to the cost of the acquisition that are contingent on one or more future events. The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of initially accounting for the acquisition without impairing the reliability of the information, even though some uncertainty exists. If the future events do not occur or the estimate needs to be revised, the cost of the acquisition shall be adjusted accordingly.

131. However, when an acquisition agreement provides for such an adjustment, that adjustment is not included in the cost of the acquisition at the time of initially accounting for the acquisition if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the acquisition.

132. In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation for a reduction in the value of the assets given, equity instruments issued or liabilities incurred or assumed by the acquirer in exchange for control of the acquired operation. This is the case, for example, when the acquirer guarantees the market price of equity or debt instruments issued as part of the cost of the acquisition and is required to issue additional equity or debt instruments to restore the originally determined cost. In such cases, no increase in the cost of the acquisition is recognized. In the case of equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments initially issued. In the case of debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.

133. An entity, such as a mutual entity, that has not yet applied this Standard and had one or more public sector combinations that were accounted for using the purchase method (which involves the amortization of goodwill) shall apply the transition provisions in paragraphs AG114–AG115.

Income taxes

134. For public sector combinations in which the acquisition date or amalgamation date was before this Standard is applied, the acquirer or resulting entity shall apply the requirements of the relevant international or national accounting standard dealing with income taxes prospectively. From the date when this Standard is applied, the acquirer or resulting entity shall recognize any changes required by the relevant international or national accounting standard dealing with income taxes as an adjustment to surplus or deficit (or, if required by the relevant international or national accounting standard dealing with income taxes, outside surplus or deficit).

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 40.

Definitions (see paragraph 5)

AG1. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." A resulting entity is not initially a party to the public sector combination. A resulting entity may have the legal form of a new entity, or may retain the legal identity of one of the combining operations. However, a resulting entity usually has the economic substance of a new entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting entity has the substance of a new entity.

Identifying a Public Sector Combination (see paragraph 6)

AG2. Paragraph 5 of this Standard defines a public sector combination as "the bringing together of separate operations into one public sector entity." The reference to one public sector entity may be to a single entity or to an economic entity. Some public sector reorganizations may involve more than one public sector combination. The circumstances in which a public sector combination might occur include:

(a) By mutual agreement; and

(b) By compulsion (for example by legislation).

AG3. Paragraph 5 of this Standard defines an operation as "an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services."

AG4. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as an operation. For the purposes of this standard, the three elements of an operation are defined as follows:

(a) **Input**: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

(b) **Process**: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

(c) **Output**: The result of inputs and processes applied to those inputs that provide, or have the ability to provide, goods and/or services.

The definitions of an input and an output differ from those in RPG 3, *Reporting Service Performance Information*. This is because RPG 3 focuses on recipients who are external to the entity; an operation may have recipients who are internal to an entity.

AG5. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/or liabilities requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the transferor used in operating that operation if the entity that receives the operation or operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.

AG6. The nature of the elements of an operation varies by sector and by the structure of an entity's operations (activities), including the entity's stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and processes and sometimes only a single output (product). Nearly all operations also have liabilities, but an operation need not have liabilities.

AG7. An integrated set of activities and assets and/or liabilities in the development stage might not have outputs. In these cases, the entity that receives the operation should consider other factors to determine whether the set is an operation. Those factors include, but are not limited to, whether the set:

(a) Has begun planned principal activities;

(b) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;

(c) Is pursuing a plan to produce outputs; and

(d) Will be able to obtain access to service recipients that will receive the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets and/or liabilities in the development stage to qualify as an operation.

AG8. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.

AG9. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

Classification of Public Sector Combinations (see paragraphs 7–14)

Assessment of Control (see paragraphs 7–8)

AG10. Where a party to a public sector combination gain controls of one or more operations as a result of that combination, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. If no party to the combination gains control, the combination is classified as an amalgamation. In making this assessment the first step is to determine whether one of the entities that existed prior to the public sector combination has gained control of one or more operations. Because this determination is made by reference to the entities that existed prior to the public sector combination, it differs from the assessment of control made in accordance with IPSAS 35, *Consolidated Financial Statements*, where the assessment of control is made by reference to the entities that exist after a public sector combination has taken place.

AG11. In determining whether one party to a public sector combination gains control of one or more operations as a result of the combination, an entity applies the principles and guidance in IPSAS 35. In applying the principles and guidance, references to "an entity controls" are read as "an entity gains control of" and references to "another entity" are read as "an operation". For example, in determining whether one party to a public sector combination gains control of one or more operations as a result of the combination for the purposes of this Standard, paragraph 20 of IPSAS 35 should be read as follows (amended text is shown in italics):

> Thus, an entity *gains control of an operation* if and only if the entity *gains* all the following:
>
> (a) Power over the operation (see paragraphs 23–29);
>
> (b) Exposure, or rights, to variable benefits from its involvement with the operation (see paragraphs 30–34); and
>
> (c) The ability to use its power over the operation to affect the nature or amount of the benefits from its involvement with the operation (see paragraphs 35–37).

AG12. In applying the principles and guidance in IPSAS 35, an entity has regard to paragraphs AG13–AG18.

AG13. A public sector combination effected primarily by the transfer of consideration (i.e., by transferring cash or other assets or by incurring liabilities) usually results in one entity gaining control of one or more operations.

AG14. A public sector combination effected primarily by exchanging equity interests usually results in one entity gaining control of one or more operations. Combinations involving an exchange of equity interests usually results in one entity having sufficient voting rights to gain control of one or more operations. This may occur without the entity having a majority of the voting rights where the entity has a large minority voting interest and no other owner or organized group of owners has a significant voting interest.

AG15. A public sector combination involving the issuance of equity interests may give rise to a reverse acquisition (see paragraphs AG66–AG71). An entity considers this possibility in determining whether one party to a public sector combination gains control of operations.

AG16. In a public sector combination involving more than two entities, the party to the public sector combination that initiates the combination (if any) is more likely to gain control of operations than the other parties to the combination.

AG17. In a public sector combination in which a new entity is formed to effect the combination, that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations.

AG18. If the application of this guidance identifies one party to the combination as gaining control of one or more operations, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. An entity considers the guidance in paragraphs 9–14 and AG19–AG50 to determine whether the economic substance of the combination is that of an amalgamation. If the application of the guidance does not identify one party to the combination as gaining control of one or more operations, the combination shall be classified as an amalgamation.

Assessment of the Classification of a Public Sector Combination (see paragraphs 9–14)

AG19. If one party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. In assessing whether the economic substance of the combination is that of an amalgamation, an entity considers the economic substance of the public sector combination and the indicators in paragraphs 12–14. A combination that does not have the economic substance of an amalgamation shall be classified as an acquisition. In making this assessment, an entity considers the following guidance.

Economic Substance (see paragraph 9)

AG20. Usually, an analysis of the indicators in paragraphs 12–13, individually or on combination, will produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation.

AG21. Where consideration of the indicators in paragraphs 12–13 produces inconclusive results or does not provide sufficient evidence to clearly determine the economic substance of the combination, an entity considers the additional matters in paragraph 14.

AG22. The economic substance of an amalgamation is usually that a new entity is formed, irrespective of the legal form of the resulting entity. This applies equally to a combination in which one party to the combination gains control of one or more operations. If the economic substance of a public sector combination is that one of the parties to the combination continues to exist, this may provide evidence that the economic substance of the combination is that of an acquisition. In combinations of operations under common control, the fact that the ultimate controlling entity controls the operations both before and after the combination reduces the significance of this factor.

AG23. An amalgamation involves the integration of the operations that are part of the public sector combination. In other words, an amalgamation does not give rise to a controlling entity/controlled entity relationship between parties to a combination. If, following the combination, any of the operations operate as controlled entities of a party to the combination, this may provide evidence that the economic substance of the combination is that of an acquisition.

AG24. An acquisition is usually a mutual agreement between two or more parties, and usually has commercial substance. However, in the public sector, a party to the combination may be able to impose a public sector combination on the other party to the combination. Where this results in the entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probable that the economic substance of the public sector combination is that of an acquisition. For example, a central government may centralize a service for which it had been providing funding, by requiring local government entities to transfer operations to the central government in order to achieve economies of scale. Where the entity does not gain access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction, it is probable that the economic substance of the public sector combination is that of an amalgamation.

AG25. Where, after consideration of the indicators and the nature of the public sector combination, there is insufficient evidence that the public sector combination has the economic substance of an amalgamation, the combination shall be classified as an acquisition.

Indicators Relating to Consideration (see paragraph 12)

AG26. Amalgamations usually do not involve the payment of consideration to compensate a seller for giving up their entitlement to the net assets of an operation. By contrast, acquisitions usually involve an exchange of consideration between those gaining control of the operations and those losing control of the operations.

AG27. The payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of the public sector combination is an acquisition. In such cases, the combination is classified as an acquisition.

AG28. The payment of consideration that is not intended to compensate the seller for giving up their entitlement to the net assets of an operation, but is, for example, intended to reimburse them for costs incurred in effecting the public sector combination, may provide evidence that the economic substance of the combination is that of an amalgamation.

AG29. Acquisitions may occur without an exchange of consideration, for example where an individual bequeaths an operation to a government entity. Consequently, the absence of consideration does not in itself provide evidence of the economic substance of the public sector combination. In assessing consideration, an entity also considers the reasons why consideration was either paid or not paid.

AG30. Where a public sector combination does not include the payment of consideration, an entity considers the reasons why no consideration has been paid. If the former owner has given up their entitlement to the net assets of an operation, or has had their entitlement extinguished through compulsion (for example, in an uncompensated seizure), there may be evidence that the combination is an acquisition.

AG31. Where a public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of an operation, the economic substance of the combination will usually be that of an amalgamation. An acquisition involves a transfer of an operation from its former owner to its new owner. If there is no party with an entitlement to the net assets of an operation, there is no former owner, and the combination is usually not an acquisition. This scenario will only arise where a complete entity is being transferred; where an individual operation is being transferred, the entity transferring the operation will be the former owner and will be entitled to the net assets of the operation. Examples of entities where there will be no former owner(s) include municipalities and some not-for-profit organizations.

Indicators Relating to the Decision-Making Process (see paragraph 13)

AG32. An acquisition usually requires the voluntary participation of all the parties to the combination. Consequently, where a public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the economic substance of the combination is an amalgamation.

AG33. In other circumstances, the parties to the public sector combination will be able to influence the terms of the combination to different degrees even when the combination is imposed by a third party. As the degree of influence the parties to the combination have increases, particularly the influence of the party that gains control of one or more operations, it becomes less likely that a conclusion regarding the economic substance of the combination can be drawn.

AG34. For example, the parties to the combination may be directed to combine by a regulator, but the regulator allows the parties to determine the terms of the combination. The economic substance of this public sector combination is likely to be determined by the terms of the combination agreed by the parties rather than by the decision of the regulator that the parties must combine.

AG35. Where the party to the public sector combination that gains control of one or more operations is able to impose the combination on the other party, this does not provide evidence that the economic substance of the combination is that of an amalgamation. For example, a government may decide to nationalize a private sector entity, contrary to the wishes of the shareholders. The fact that the government (a party to the combination) is able to impose the nationalization, for example through legislation, does not provide evidence that the economic substance of the combination is an amalgamation. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this provides evidence that the economic substance of the combination is that of an acquisition.

AG36. Where a public sector combination is subject to approval by each party's citizens through referenda, this may provide evidence that the economic substance of the combination is that of an amalgamation. Such a requirement provides evidence that the parties to the combination do not have freedom to voluntarily effect the combination and that the ultimate decision as to whether the combination takes place is taken by third parties. However, it is possible for citizens to approve, through referenda, a combination whose terms are those of an acquisition.

AG37. Where a public sector combination takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. Public sector combinations under common control are often instigated by and on behalf of the controlling entity, and the controlling entity will often determine the terms of the combination. For example, a government may decide to combine two ministries for administrative or political reasons, and specify the terms of the combination. In such circumstances, the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. This provides evidence that the economic substance of the combination is an amalgamation.

AG38. In some circumstances, two operations under common control may agree to combine voluntarily. However, this decision will usually be subject to the approval of the controlling entity, whether this approval is given explicitly or not. Where the approval of the controlling entity is required, this provides evidence that the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. Consequently, this provides evidence that the economic substance of the combination is that of an amalgamation.

AG39. Only where there is no evidence that the controlling entity is involved in the public sector combination, either by instigating the combination, determining the terms of the combination, or approving (whether explicitly or implicitly) the combination, will there be no evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the entity considers all other factors in determining the classification of the public sector combination.

Additional Matters to be Considered Where the Indicators Relating to Consideration and the Decision-Making Process do not Provide Sufficient Evidence to Determine Whether the Economic Substance of the Combination is that of an Amalgamation (see paragraph 14)

AG40. Where an analysis of the indicators relating to consideration and the decision-making process produces inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification and resulting accounting treatment would provide information that:

(a) Best meets the objectives of financial reporting; and

(b) Best satisfies the qualitative characteristics (QCs).

AG41. An analysis of the indicators relating to consideration and the decision-making process will usually produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. This is because the indicators relating to consideration and the decision-making process will provide evidence of the economic substance of a public sector combination in all but exceptional circumstances. As a result, where it is clear that the indicators have been met, the additional matters set out in paragraph 14 are not considered in determining the classification.

AG42. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification would provide information that best meets the objectives of financial reporting. The determination of whether a public sector combination is classified as an acquisition or an amalgamation can significantly affect the financial reporting of the combination. Consequently, it is important to consider the information each method provides and the principal users of that information.

AG43. The modified pooling of interests method views the combination from the perspective of each of the combining operations and their owners or constituents who are uniting their interests in the resulting entity. Using the modified pooling of interests method of accounting, the combining operations measure the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. Such information may assist users in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods. However, this comparability may be reduced where adjustments to achieve consistent accounting policies are required. It does not include information about the market's expectation of the value of the future cash flows associated with assets and liabilities, other than assets and liabilities recorded at fair value prior to the date of the amalgamation.

AG44. The acquisition method views a combination from the perspective of the acquirer—the entity that gains control of the other operations. The acquirer purchases or otherwise gains control over net assets and recognizes in its financial statements the assets acquired and liabilities assumed, including those not previously recognized by the acquired operation. Such information assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities. While it revalues the assets and liabilities of the acquired operation, it does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Further, depending on the relationship between the amounts in paragraph 85(a) and 85(b) and other factors (for example, a bargain purchase), it may result in the immediate recognition of a gain or loss through surplus or deficit.

AG45. The information provided by each approach is summarized in the following table.

	Amalgamation	**Acquisition**
Perspective	Perspective of each of the combining operations and their owners or constituents.	Perspective of the acquirer.
User information	Assists users of the financial statements in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.	Assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments.
Basis of reported values	Measures the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.	Revalues the identifiable assets and liabilities of the acquired operation but does not affect the valuation of assets and liabilities held by the acquirer. Includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities.

	Amalgamation	**Acquisition**
Ability to compare to operating results of prior periods	May facilitate the comparison of operating results with prior periods. Comparability may be reduced where adjustments to achieve consistent accounting policies are required.	Difficult to compare operating results with prior periods.

AG46. Consideration of which classification would provide information that best meets the objectives of financial reporting provides evidence of the economic substance of the public sector combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

AG47. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine the classification of the combination, an entity considers which classification would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. In making this assessment, an entity also considers the constraints on information included in general purpose financial reports, which are materiality, cost-benefit and the balance between the QCs.

AG48. When considering the classification of a public sector combination, some QCs will be more significant than others. For example, timeliness will be less significant than understandability when considering whether a combination is an amalgamation or an acquisition.

AG49. An entity considers the QCs and the constraints on information from the perspective of the users of the financial statements. This will include consideration of the following questions; this list is not exhaustive.

(a) Which classification most faithfully represents the economic substance of the public sector combination, which may be different from its legal form? Does that classification faithfully represent an entity's financial performance and financial position?

(b) Which classification will help users understand the nature of the public sector combination? For example, in an amalgamation, any difference between the total recognized assets and total recognized liabilities is recognized in net assets/equity, whereas in an acquisition, the acquirer recognizes goodwill, or a gain or loss in the reporting period. Which approach best helps the user to understand the nature of the combination?

(c) Users' needs are best served when the information provided in respect of a transaction is comparable. How are similar public sector combinations classified?

AG50. Consideration of which classification would provide information that best meets the QCs provides evidence of the economic substance of the public sector combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

Accounting for Amalgamations

Eliminating Transactions Between the Combining Operations (see paragraph 22)

AG51. A resulting entity eliminates the effects of all transactions between the combining operations. For many transactions, elimination will take place automatically. For example, one combining operation provided services for a fee to another combining operation prior to the amalgamation date. The revenue of the combining operation that provided the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The expense of the combining operation receiving the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The resulting entity will recognize both amounts in net assets/equity.

AG52. Elimination may not take place automatically where one combining operation has recognized an asset, and another combining operation has recognized a corresponding liability as a result of the transaction between two combining operations. The resulting entity eliminates both the asset and the liability, and recognizes any difference between the asset and liability in net assets/equity.

Carrying Amounts to be Used (see paragraphs 26–27)

AG53. Where a combining operation has previously been acquired in an acquisition (i.e., it was previously an acquired operation), the carrying amounts of the combining operation's assets and liabilities in its separate financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements. In an acquisition, the controlling entity would measure the combining operation's assets and liabilities at their fair value. However, where the combining operation (i.e., the previously acquired operation) continues to prepare separate financial statements, it would use its previous carrying amounts. The fair value measurements in the financial statements of the controlling entity are not pushed down to the combining operation.

AG54. To meet the requirements in paragraphs 26–27, a resulting entity measures the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The resulting entity does not measure the assets and liabilities at the carrying amounts in the financial statements of the controlling entity.

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation (see paragraph 32)

AG55. As part of an amalgamation, a resulting entity may receive a license or similar right that had previously been granted by one combining operation to another combining operation to use one or more of the grantor's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. The resulting entity recognizes this license or similar right as an identifiable intangible asset, and measures the intangible asset at its carrying amount in the financial statements of the combining operation as of the amalgamation date. Because the license or similar right has previously been part of a binding arrangement, the license satisfies both the separability and binding arrangement criteria in IPSAS 31, *Intangible Assets*. Paragraph 47 provides guidance on the subsequent accounting for a license or similar right previously granted by one combining operation to another combining operation.

AG56. The resulting entity assesses both the license or similar right previously granted by one combining operation to another combining operation, and the underlying asset (where the underlying asset is a recognized asset) for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*, at the amalgamation date.

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34)

AG57. The resulting entity shall not recognize any amounts in respect of a combining operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the amalgamation. Where tax forgiveness occurs subsequent to an amalgamation, the resulting entity applies the requirements in paragraph 49. In applying the modified pooling of interests method of accounting, the resulting entity shall treat those amounts included in the terms of the amalgamation as having been derecognized prior to the amalgamation. The resulting entity shall account for a combining operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Recognition of Goodwill (see paragraph 36)

AG59. Amalgamations do not give rise to goodwill, and consequently a resulting entity does not recognize goodwill arising from an amalgamation. Paragraphs 37–38 specify the treatment of the net assets/equity arising as a result of the amalgamation.

AG60. Where a combining operation has previously recognized goodwill as a result of a previous acquisition, the resulting entity recognizes this goodwill in its opening statement of financial position.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation (see paragraph 48)

AG61. Prior to an amalgamation taking place, a combining operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the average household income is below a threshold. An amalgamation of two municipalities may involve one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the amalgamation, the average household income of the new, combined municipality will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.

AG62. The resulting entity shall not account for any revisions to the grant amount as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

AG63. Similar circumstances may arise in respect of concessionary loans and other benefits. The resulting entity shall not account for any revisions to those transactions as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

Amalgamations Occurring during a Reporting Period (see paragraphs 50–52)

AG64. To meet the requirements of paragraphs 50–52, the resulting entity is not required to present financial statements for periods prior to the amalgamation date, although it may elect to do so by making the disclosures specified in paragraph 54(g). Where the resulting entity does not elect to present financial statements for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining operations prior to the amalgamation by:

(a) Where financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), directing the users of its financial statements to the financial statements issued on behalf of the combining operations.

(b) Where no financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), making the disclosures required by paragraph 54(h).

AG65. To satisfy the requirements of a regulator, it may be necessary for the combining operations and/or the resulting entity to present or disclose information in addition to that required by this Standard.

Accounting for Acquisitions

Reverse Acquisitions

AG66. A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquired operation for accounting purposes on the basis of the guidance in paragraphs AG10–AG18. The entity whose equity interests are acquired (the legal acquired operation) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when a public sector entity wants to become a listed entity but does not want to register its equity shares. To accomplish that, the public sector entity will arrange for a listed entity to acquire its equity interests in exchange for the equity interests of the listed entity. In this example, the listed entity is the legal acquirer because it issued its equity interests, and the public sector entity is the legal acquired operation because its equity interests were acquired. However, application of the guidance in paragraphs AG10–AG18 results in identifying:

(a) The listed entity as the acquired operation for accounting purposes (the accounting acquired operation)–i.e., the listed entity does not gain control of one or more operations; and

(b) The public sector entity as the acquirer for accounting purposes (the accounting acquirer)–i.e., the public sector entity does gain control of one or more operations.

The accounting acquired operation must meet the definition of an operation for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this Standard, including the requirement to recognize goodwill, apply.

Measuring the Consideration Transferred

AG67. In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquired operation. Instead, the accounting acquired operation usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquired operation is based on the number of equity interests the legal controlled entity would have had to issue to give the owners of the legal controlling entity the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquired operation.

Preparation and Presentation of Consolidated Financial Statements

AG68. Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal controlling entity (accounting acquired operation) but described in the notes as a continuation of the financial statements of the legal controlled entity (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquired operation. That adjustment is required to reflect the capital of the legal controlling entity (the accounting acquired operation). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal controlling entity (accounting acquired operation).

AG69. Because the consolidated financial statements represent the continuation of the financial statements of the legal controlled entity except for its capital structure, the consolidated financial statements reflect:

(a) The assets and liabilities of the legal controlled entity (the accounting acquirer) recognized and measured at their pre-combination carrying amounts.

(b) The assets and liabilities of the legal controlling entity (the accounting acquired operation) recognized and measured in accordance with this Standard.

(c) The accumulated surplus or deficit and other equity balances of the legal controlled entity (accounting acquirer) before the acquisition.

(d) The amount recognized as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal controlled entity (the accounting acquirer) outstanding immediately before the acquisition to the fair value of the legal controlling entity (accounting acquired operation). However, the equity structure (i.e., the number and type of equity interests issued) reflects the equity structure of the legal controlling entity (the accounting acquired operation), including the equity interests the legal controlling entity issued to effect the acquisition. Accordingly, the equity structure of the legal controlled entity (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal controlling entity (the accounting acquired operation) issued in the reverse acquisition.

(e) The non-controlling interest's proportionate share of the legal controlled entity's (accounting acquirer's) pre-acquisition carrying amounts of retained earnings and other equity interests as discussed in paragraphs AG70 and AG71.

Non-Controlling Interest

AG70. In a reverse acquisition, some of the owners of the legal acquired operation (the accounting acquirer) might not exchange their equity interests for equity interests of the legal controlling entity (the accounting acquired operation). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition. That is because the owners of the legal acquired operation that do not exchange their equity interests for equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquired operation—not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquired operation for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.

AG71. The assets and liabilities of the legal acquired operation are measured and recognized in the consolidated financial statements at their pre-combination carrying amounts (see paragraph AG69(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-acquisition carrying amounts of the legal acquired operation's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

Recognizing Particular Assets Acquired and Liabilities Assumed in an Acquisition (see paragraphs 64–68)

Operating Leases

AG72. The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquired operation is the lessee except as required by paragraphs AG73–AG74.

AG73. The acquirer shall determine whether the terms of each operating lease in which the acquired operation is the lessee are favorable or unfavorable. The acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph AG89 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquired operation is the lessor.

AG74. An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits or service potential that qualify as identifiable intangible assets, for example, as a relationship with users of a service. In that situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph AG75.

Intangible Assets

AG75. The acquirer shall recognize, separately from goodwill, the identifiable intangible assets acquired in an acquisition. An intangible asset is identifiable if it meets either the separability criterion or the binding arrangement criterion.

AG76. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:

(a) An acquired operation leases a facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sub-lease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease arrangement.

(b) An acquired operation owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

AG77. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquired operation and sold, transferred, licensed, rented or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licensed and thus meet the separability criterion. Even if an acquired operation believes its lists of users of a service have characteristics different from other lists of users of a service, the fact that lists of users of a service are frequently licensed generally means that the acquired list of users of a service meets the separability criterion. However, a list of users of a service acquired in an acquisition would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.

AG78. An intangible asset that is not individually separable from the acquired operation or combined entity meets the separability criterion if it is separable in combination with a related binding arrangement, identifiable asset or liability. For example, an acquired operation owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquired operation or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired Rights

AG79. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquired operation to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from goodwill or a gain from a bargain purchase. Paragraph 83 provides guidance on measuring a reacquired right and paragraph 113 provides guidance on the subsequent accounting for a reacquired right.

AG80. If the terms of the binding arrangement giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph AG100 provides guidance for measuring that settlement gain or loss.

Assembled Workforce and Other Items that are not Identifiable

AG81. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquired operation bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill or a gain from a bargain purchase, any value attributed to it is subsumed into goodwill or a gain from a bargain purchase.

AG82. The acquirer also subsumes into goodwill or a gain from a bargain purchase any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquired operation is negotiating with prospective new customers at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill or a gain from a bargain purchase. The acquirer should not subsequently reclassify the value of those binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.

AG83. After initial recognition, an acquirer accounts for intangible assets acquired in an acquisition in accordance with the provisions of IPSAS 31. However, as described in paragraph 6 of IPSAS 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other IPSASs.

AG84. The identifiability criteria determine whether an intangible asset is recognized separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 83, which establishes an exception to the fair value measurement principle for reacquired rights recognized in an acquisition.) Paragraphs 39D and 39E of IPSAS 31 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

AG85. The acquirer shall not recognize any amounts in respect of an acquired operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the acquisition. Where tax forgiveness occurs subsequent to an acquisition, the resulting entity applies the requirements in paragraph 118. The acquirer shall account for an acquired operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with IPSAS 23.

AG87. If, as a consequence of the terms of an acquisition, a tax authority forgives an amount of the acquirer's tax due, the acquirer shall derecognize those amounts in accordance with the relevant international or national accounting standard dealing with income taxes.

Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)

Assets with Uncertain Cash Flows (Valuation Allowances)

AG88. The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognize a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date.

Assets Subject to Operating Leases in Which the Acquired Operation is the Lessor

AG89. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph AG73 requires for leases in which the acquired operation is the lessee.

Assets that the Acquirer Intends not to Use or to Use in a Way that is Different from the Way Other Market Participants Would Use them

AG90. To protect its competitive position, or for security or other reasons, the acquirer may intend not to use an acquired non-financial asset actively, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer shall measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

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 valuation techniques.

AG92. The fair values of the acquirer's interest in the acquired operation and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquired operation or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

Measuring Goodwill or a Gain from a Bargain Purchase in an Acquisition (see paragraphs 85–98)

Relationship Between Goodwill and Cash Flows (see paragraph 86)

AG93. The acquirer shall recognize goodwill only to the extent that the acquirer estimates there will be favorable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer shall not recognize goodwill related to service potential other than cash flows.

Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using 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).

Special Considerations in Applying the Acquisition Method to Combinations of Mutual Entities (Application of Paragraph 87)

AG95. When two mutual entities combine, the fair value of the equity or member interests in the acquired operation (or the fair value of the acquired operation) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph 87 requires the acquirer to determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the acquirer's equity interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognize the acquired operation's net assets as a direct addition to capital or equity in its statement of financial position, not as an addition to accumulated surplus or deficit, which is consistent with the way in which other types of entities apply the acquisition method.

AG96. Although they are similar in many ways to other entities, mutual entities have distinct characteristics that arise primarily because their members are both customers and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.

AG97. A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, a present value technique may be used to measure the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

Determining what is Part of the Acquisition Transaction (see paragraphs 109–111)

AG98. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquired operation or whether the transaction is separate from the acquisition:

(a) The reasons for the transaction. Understanding the reasons why the parties to the acquisition (the acquirer and the acquired operation and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquired operation or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquired operation. Accordingly, the acquirer would account for that portion separately from the acquisition.

(b) Who initiated the transaction. Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquired operation or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquired operation or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the acquisition transaction.

(c) The timing of the transaction. The timing of the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction between the acquirer and the acquired operation that takes place during the negotiations of the terms of an acquisition may have been entered into in contemplation of the acquisition to provide future economic benefits to the acquirer or the combined entity. If so, the acquired operation or its former owners before the acquisition are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

Effective Settlement of a Pre-Existing Relationship between the Acquirer and Acquired Operation in an Acquisition (see paragraph 110(a))

AG99. The acquirer and acquired operation may have a relationship that existed before they contemplated the acquisition, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquired operation may arise from a binding arrangement (for example, vendor and customer or licensor and licensee) or may arise outside of a binding arrangement (for example, plaintiff and defendant).

AG100. If the acquisition in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:

(a) For a pre-existing relationship arising outside of a binding arrangement (such as a lawsuit), fair value.

(b) For a pre-existing relationship arising from a binding arrangement, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favorable or unfavorable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavorable binding arrangement is a binding arrangement that is unfavorable in terms of current market terms. It is not necessarily an onerous binding arrangement in which the unavoidable costs of meeting the obligations under the binding arrangement exceed the economic benefits expected to be received under it.)

(ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavorable.

If (ii) is less than (i), the difference is included as part of the acquisition accounting.

The amount of gain or loss recognized may depend in part on whether the acquirer had previously recognized a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

AG101. A pre-existing relationship may be a binding arrangement that the acquirer recognizes as a reacquired right. If the binding arrangement includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the acquisition, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph AG100.

Arrangements for Contingent Payments to Employees or Selling Shareholders (see paragraph 110(b))

AG102. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG103. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquired operation or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

(a) Continuing employment. The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.

(b) Duration of continuing employment. If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.

(c) Level of remuneration. Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.

(d) Incremental payments to employees. If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.

(e) Number of shares owned. The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares in the acquired operation continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if selling shareholders who continue as key employees owned only a small number of shares of the acquired operation and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.

(f) Linkage to the valuation. If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquired operation and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.

(g) Formula for determining consideration. The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquired operation. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.

(h) Other agreements and issues. The terms of other arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquired operation. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease arrangement are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its post-combination financial statements. In contrast, if the lease arrangement specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

Acquirer Share-Based Payment Awards Exchanged for Awards Held by the Acquired Operation's Employees (see paragraph 110(b))

AG104. An acquirer may exchange its share-based payment awards for awards held by employees of the acquired operation. The acquirer shall account for exchanges of share options or other share-based payment awards in conjunction with an acquisition in accordance with the relevant international or national accounting standard dealing with share-based payments.

AG105. In situations in which acquired operation awards would expire as a consequence of an acquisition and if the acquirer replaces those awards when it is not obliged to do so, the acquirer shall recognize any costs as remuneration cost in the post-combination financial statements in accordance with the relevant international or national accounting standard dealing with share-based payments. The cost of those awards shall not be included in measuring the consideration transferred in the acquisition.

Equity-Settled Share-Based Payment Transactions of the Acquired Operation

AG106. The acquired operation may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquired operation share-based payment transactions are part of the non-controlling interest in the acquired operation. If unvested, they are measured as if the acquisition date were the grant date. Share-based payment transactions are measured in accordance with the relevant international or national accounting standard dealing with share-based payments.

Subsequent Measurement and Accounting (see paragraph 112)

AG107. Examples of other IPSASs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:

(a) IPSAS 31 prescribes the accounting for identifiable intangible assets acquired in an acquisition. The acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment losses. IPSAS 26 prescribes the accounting for impairment losses.

(b) IPSAS 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

AG108. An acquirer should refer to the relevant international or national accounting standards for guidance on subsequently measuring and accounting for insurance contracts, income taxes and share-based payments.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition (see paragraph 114)

AG109. Prior to an acquisition taking place, an acquirer or an acquired operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the municipality's revenue per head of population is below a threshold. An acquisition by a municipality of a cash-generating operation may increase the revenue per head of population of the municipality so that it is above the threshold. This may cause the government to review the grant.

AG110. The acquirer shall not account for any revisions to the grant amount as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

AG111. Similar circumstances may arise in respect of concessionary loans and other benefits. The acquirer shall not account for any revisions to those transactions as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

Acquisitions Occurring during a Reporting Period

AG112. The resulting entity meets the needs of the users of its financial statements for information about the acquired operations prior to the acquisition by making the disclosures in paragraph 120(r).

AG113. To satisfy the requirements of a regulator, it may be necessary for the acquirer to present or disclose information in addition to that required by this Standard.

Transitional Provisions for Public Sector Combinations Involving Only Mutual Entities or by Contract Alone (see paragraph 133)

AG114. Paragraph 126 provides that this Standard applies prospectively to public sector combinations for which the acquisition date or amalgamation date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

AG115. The requirement to apply this Standard prospectively has the following effect for a public sector combination involving only mutual entities or by contract alone if the acquisition date or amalgamation date for that public sector combination is before the application of this Standard:

(a) Classification. An entity shall continue to classify the prior public sector combination in accordance with the entity's previous accounting policies for such combinations.

(b) Previously recognized goodwill. At the beginning of the first annual period in which this Standard is applied, the carrying amount of goodwill arising from the prior public sector combination shall be its carrying amount at that date in accordance with the entity's previous accounting policies. In determining that amount, the entity shall eliminate the carrying amount of any accumulated amortization of that goodwill and the corresponding decrease in goodwill. No other adjustments shall be made to the carrying amount of goodwill.

(c) Goodwill previously recognized as a deduction from equity. The entity's previous accounting policies may have resulted in goodwill arising from the prior public sector combination being recognized as a deduction from equity. In that situation the entity shall not recognize that goodwill as an asset at the beginning of the first annual period in which this Standard is applied. Furthermore, the entity shall not recognize in surplus or deficit any part of that goodwill when it disposes of all or part of the operation to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

(d) Subsequent accounting for goodwill. From the beginning of the first annual period in which this Standard is applied, an entity shall discontinue amortizing goodwill arising from the prior public sector combination and shall test goodwill for impairment in accordance with IPSAS 26.

(e) Previously recognized negative goodwill. An entity that accounted for the prior public sector combination by applying the purchase method may have recognized a deferred credit for an excess of its interest in the net fair value of the acquired operation's identifiable assets and liabilities over the cost of that interest (sometimes called negative goodwill). If so, the entity shall derecognize the carrying amount of that deferred credit at the beginning of the first annual period in which this Standard is applied with a corresponding adjustment to the opening balance of accumulated surplus or deficit at that date.

Appendix B

Amendments to Other IPSASs

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 135 is amended and paragraph 153J is added. New text is underlined and deleted text is struck through.

Notes

…

Disclosure of Accounting Policies

…

135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When ~~entity combinations~~ public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

…

Effective Date

…

153J. **Paragraph 135 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 10, Financial Reporting in Hyperinflationary Economies

Paragraph 22 is amended and paragraph 38E is added. New text is underlined and deleted text is struck through.

The Restatement of Financial Statements

…

Statement of Financial Position

…

22. To determine whether the restated amount of a non-monetary item has become impaired and should be reduced an entity applies relevant impairment tests in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets* ~~or international and/or national accounting standards addressing impairment of goodwill~~. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount where appropriate, and restated amounts of inventories are reduced to net realizable value or current replacement cost. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of financial performance of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets/equity and surplus or deficit. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

…

Effective Date

…

38E. **Paragraph 22 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 14, Events After the Reporting Date

Paragraph 31 is amended and paragraph 32E is added. New text is underlined and deleted text is struck through.

Disclosure

…

Disclosure of Non-adjusting Events after the Reporting Date

…

31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

(a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since the reporting date;

(b) The entity decides after the reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programs that it operates, and those additional benefits have a major impact on the entity;

(c) A major public sector combination (IPSAS 40, *Public Sector Combinations* requires specific disclosures in such cases), a ~~An acquisition or~~ disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;

…

Effective Date

…

32E. **Paragraph 31 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 16, *Investment Property*

Paragraphs 87 and 90 are amended and paragraphs 18A and 101E are added. New text is underlined and deleted text is struck through.

Definitions

…

Investment Property

…

18A. Judgment is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a public sector combination within the scope of IPSAS 40, *Public Sector Combinations.*

Reference should be made to IPSAS 40 to determine whether it is a public sector combination. The discussion in paragraphs 9–18 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a public sector combination as defined in IPSAS 40. Determining whether a specific transaction meets the definition of a public sector combination as defined in IPSAS 40 and includes an investment property as defined in this Standard requires the separate application of both Standards.

…

Disclosure

Fair Value Model and Cost Model

…

Fair Value Model

87. In addition to the disclosures required by paragraph 86, an entity that applies the fair 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) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;

(b) Additions resulting from acquisitions through ~~entity combinations~~ public sector combinations;

…

Cost Model

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

(a) The depreciation methods used;

…

(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 ~~entity combinations~~ public sector combinations;

(iii) Disposals;

…

Effective Date

…

101E. **Paragraph 18A was added and paragraphs 87 and 90 amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 17, Property, Plant, and Equipment

Paragraphs 60 and 88 are amended and paragraph 107M is added. New text is underlined and deleted text is struck through.

Depreciation

…

60. 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, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may 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.

88. 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;

    …

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

        (i) Additions;

        (ii) Disposals;

(iii) Acquisitions through ~~entity combinations~~ public sector combinations;

…

Effective Date

…

107M. **Paragraphs 60 and 88 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 18, *Segment Reporting*

Paragraphs 34 and 37 are amended and paragraph 76E is added. New text is underlined and deleted text is struck through.

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

…

Segment Assets, Liabilities, Revenue, and Expense

…

34. The consolidated financial statements of a government or other entity may encompass operations ~~entities~~ acquired in ~~an entity acquisition~~ a public sector combination that gives rise to purchased goodwill (guidance on accounting for the acquisition of an ~~entity~~ operation is included in ~~IFRS 3, *Business Combinations*~~ IPSAS 40, *Public Sector Combinations*).~~)~~ In these cases, segment assets will include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related ~~amortization~~ impairment of goodwill.

…

37. ~~International or national accounting standards~~ IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an ~~entity~~ operation acquired in an acquisition ~~(see for example IFRS 3)~~. 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 ~~entity~~ acquired in an acquisition ~~entity combination accounted for as a purchase~~, 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 model in IPSAS 17, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

…

Effective Date

…

76E. **Paragraphs 34 and 37 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

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

Paragraphs 4A and 111F are added. New text is underlined.

Scope

…

4A. This Standard does not apply to the contingent consideration of an acquirer in a public sector combination which is within the scope of IPSAS 40, *Public Sector Combinations*.

…

Effective Date

…

111F. **Paragraph 4A was added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

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

Paragraph 14 is amended and paragraphs 20A and 82G are added. New text is underlined and deleted text is struck through.

Definitions

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

…

Cash-generating assets are assets held with the primary objective of generating a commercial return. For the purposes of impairment, goodwill is considered a cash-generating asset.

…

Cash-Generating Assets

…

20A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. This Standard deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in this Standard includes service potential. Consequently, an entity applies IPSAS 26 rather than this Standard to determine whether to impair goodwill.

…

Effective Date

…

82G. **Paragraph 14 was amended and paragraph 20A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

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

…

Cash-Generating Assets

…

BC5A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

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

Paragraphs 1, 2 and 6 are amended and paragraph 124E is added. New text is underlined and deleted text is struck through.

Objective

1. The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to a public sector combination ~~an entity combination~~. This Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to a public sector combination ~~an entity combination~~ that is a non-exchange transaction.**

…

6. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination ~~An entity combination~~ occurs when two or more operations ~~reporting entities~~ are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. ~~The IPSASB has not addressed entity combinations, and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination, which is a non-exchange transaction, will give rise to revenue or not.~~ Public sector combinations shall be accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

…

Effective Date

…

124E. **Paragraphs1, 2 and 6 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

…

Public Sector ~~Entity~~ Combinations

BC8. When issued, this ~~This~~ Standard did ~~does~~ not specify whether entity combinations resulting from non-exchange transactions will give rise to revenue. This was ~~is~~ because the IPSASB ~~has~~ had not considered the financial reporting of entity combinations in the public sector, including the applicability of IFRS 3, *Business Combinations*, to public sector entities.

BC8A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations*. IPSAS 40 specifies the accounting for public sector combinations, including the treatment for any gains or losses. Public sector combinations are, therefore, excluded from the scope of this Standard.

Amendments to IPSAS 26, Impairment of Cash-Generating Assets

Paragraphs 2, 23, 71, 76, 88, 91, 92, 98–100, 102, 103, 106–108, 110, 111, 120, 122 and 123–125, and headings before paragraphs 71 and 76 are amended. Paragraphs 18A, 20A, 90A–90O, 97A–97H, 111A, 111B, 122A and 126I, and headings after paragraphs 90, 97 and 111 are added. Paragraphs 7 and 96 are deleted. 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 the impairment of cash-generating assets, except for:**

   …

   ~~(i) Goodwill;~~

   …

~~7. This Standard excludes goodwill from its scope. Entities apply the requirements of the relevant international or national accounting standards dealing with the impairment of goodwill, the allocation of goodwill to cash-generating units, and the testing for impairment of cash-generating units with goodwill.~~

…

Definitions

…

Cash-Generating Assets

…

<u>18A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. IPSAS 21 deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer’s net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in IPSAS 21 includes service potential. Consequently, an entity applies this Standard to determine whether to impair goodwill.</u>

…

Identifying an Asset that may be Impaired

20A. Paragraphs 21–30 specify when recoverable amount shall be determined. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:

(a) Paragraphs 31–70 set out the requirements for measuring recoverable amount. These requirements also use the term 'an asset' but apply equally to an individual asset and a cash-generating unit.

(b) Paragraphs 71–97 set out the requirements for recognizing and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 71–75. Paragraphs 76–97 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.

(c) Paragraphs 98–105 set out the requirements for reversing an impairment loss recognized in prior periods for an asset or a cash-generating unit. Again, these requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110–111, and for goodwill in paragraphs 111A–111B.

(d) Paragraphs 112–113 set out the requirements for the redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset.

(e) Paragraphs 114–122A specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs 123–125 specify additional disclosure requirements for cash-generating units to which goodwill or intangible assets with indefinite useful lives have been allocated for impairment testing purposes.

…

23. **Irrespective of whether there is any indication of impairment, an entity shall also:**

(a) **T~~t~~est an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially**

recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.

(b) **Test goodwill acquired in an acquisition for impairment annually in accordance with paragraphs 90A–90O.**

...

Recognizing and Measuring an Impairment Loss ~~of an Individual Asset~~

71. Paragraphs 72–75 set out the requirements for recognizing and measuring impairment losses for an individual asset other than goodwill. The recognition and measurement of impairment losses for cash-generating units and goodwill are dealt with in paragraphs 76–97H.

…

Cash-Generating Units and Goodwill

76. Paragraphs 77–97H set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognizing impairment losses for, cash-generating units and goodwill.

…

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

…

88. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate, or are used to generate, the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. The Illustrated Decision Tree provides a flow diagram illustrating the treatment of individual assets that are part of cash-generating units. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill. Paragraphs90A–90O explain how to deal with these assets in testing a cash-generating unit for impairment.

…

Goodwill

Allocating Goodwill to Cash-Generating Units

90A. **For the purpose of impairment testing, goodwill acquired in an acquisition shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units or groups of units. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, the acquirer shall be considered as the cash-generating unit. Except where goodwill relates to the acquisition of a non-cash-generating operation, each unit or group of units to which the goodwill is so allocated shall:**

(a) **Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and**

(b) **Not be larger than a segment as defined by paragraph 9 of IPSAS 18, *Segment Reporting*.**

90B. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. Goodwill does not generate cash flows, or reductions in net cash outflows, independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, references in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to the acquirer.

90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

90E. **If the initial allocation of goodwill acquired in an acquisition cannot be completed before the end of the annual period in which the acquisition is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**

90F. In accordance with IPSAS 40, *Public Sector Combinations*, if the initial accounting for an acquisition can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

(a) Accounts for the acquisition using those provisional values; and

(b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the acquisition before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. **If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:**

(a) **Included in the carrying amount of the operation when determining the gain or loss on disposal; and**

(b) **Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.**

90H. **If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.**

Testing cash-generating units with goodwill for impairment

90I. **When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit**

may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 91.

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. **A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph 91.**

Timing of impairment tests

90L. **The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an acquisition during the current annual period, that unit shall be tested for impairment before the end of the current annual period.**

90M. **If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.**

90N. At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

90O. **The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:**

(a) **The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;**

(b) **The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and**

(c) **Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.**

Impairment Loss for a Cash-Generating Unit

91. **An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units) in the following order:**

(a) **First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and**

(b) **Then, to the other assets of the unit (group of units) on a pro rata basis, based on the carrying amount of each asset in the unit.**

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

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 (if determinable);**

(b) **Its value in use (if determinable); and**

(c) **Zero.**

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit (group of units).

…

~~96. Where an asset releases service potential to one or more cash-generating activities, but not to non-cash-generating activities, entities refer to the relevant international and national accounting standard dealing with such circumstances.~~

…

Impairment Testing Cash-Generating Units with Goodwill and Non-Controlling Interests

97A. In accordance with IPSAS 40, the acquirer measures and recognizes goodwill as of the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with IPSAS 40, which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquired operation measured in accordance with IPSAS 40; and

(iii) In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS 40.

Allocation of Goodwill

97B. Paragraph 90A of this Standard requires goodwill acquired in an acquisition to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an acquisition will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for Impairment

97C. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.

97D. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an Impairment Loss

97E. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

97F. If a controlled entity, or part of a controlled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97G. If a controlled entity, or part of a controlled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:

(a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and

(b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97H. If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the controlling entity's consolidated financial statements (see paragraph 97D), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the controlling entity is recognized as a goodwill impairment loss.

Reversing an Impairment Loss

98. Paragraphs 99–105 set out the requirements for reversing an impairment loss recognized for an asset or a cash-generating unit in prior periods. These requirements use the term "an asset," but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109 ~~and~~, for a cash-generating unit~~,~~ in paragraphs 110 and 111 and for goodwill in paragraphs 111A and 111B.

99. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than good will may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.**

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

…

102. If there is an indication that an impairment loss recognized for an asset other than goodwill may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the standard applicable to the asset, even if no impairment loss is reversed for the asset.

103. **An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 106, be increased to its recoverable amount. That increase is a reversal of an impairment loss.**

…

Reversing an Impairment Loss for an Individual Asset

106. **The increased carrying amount of an asset other than good will attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.**

107. Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior

years is a revaluation. In accounting for such a revaluation, an entity applies the standard applicable to the 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 model in IPSAS 17 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.**

…

Reversing an Impairment Loss for a Cash-Generating Unit

110. **A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized in accordance with paragraph 108. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.**

111. **In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 110, the carrying amount of an asset shall not be increased above the lower of:**

(a) **Its recoverable amount (if determinable); and**

(b) **The carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior periods.**

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

Reversing an Impairment Loss for Goodwill

111A. **An impairment loss recognized for goodwill shall not be reversed in a subsequent period.**

111B. IPSAS 31 prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

…

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 good will) or a cash-generating unit:**

(a) **The events and circumstances that led to the recognition or reversal of the impairment loss;**

…

(e) **Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use;**

…

122. An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period. However, paragraph 123 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

122A. **If, in accordance with paragraph 90E, any portion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.**

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)–~~(e)~~(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:**

(a) **The carrying amount of goodwill allocated to the unit (group of units)**

~~(a)~~(b) **The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);**

~~(b)~~(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);**

~~(c)~~(d) **If the unit's (group of units') recoverable amount is based on value in use:**

(i) **A description of 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;**

(ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) 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;**

(iii) **The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;**

(iv) **The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated; and**

(v) **The discount rate(s) applied to the cash flow projections.**

~~(d)~~(e) **If the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit, the following information shall also be disclosed:**

(i) **A description of each key assumption on which management has based its determination of fair value less costs to sell. 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.**

If fair value less costs to sell is determined using discounted cash flow projections, 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.**

~~(e)~~(f) **If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's carrying amount to exceed its recoverable amount:**

(i) **The amount by which the unit's (group of units') recoverable amount would exceed its carrying amount;**

(ii) **The value assigned to the key assumption; and**

(iii) **The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.**

124. **If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s), and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:**

(a) **The aggregate carrying amount of goodwill allocated to those units (groups of units);**

~~(a)~~(b) **The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);**

~~(b)~~(c) **A description of the key assumption(s);**

~~(c)~~(d) **A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) 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;**

~~(d)~~(e) **If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:**

(i) **The amount by which the aggregate of the units' (group of units') recoverable amounts would exceed the aggregate of their carrying amounts;**

(ii) **The value(s) assigned to the key assumption(s); and**

(iii) **The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (group of units') recoverable amounts to be equal to the aggregate of their carrying amounts.**

125. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 37 or 90O, be carried forward and used in the impairment test for that unit (group of units) in the current period, provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 123 and 124 relate to the carried forward calculation of recoverable amount.

Effective Date

…

126I. **Paragraphs 2, 23, 71, 76, 88, 91, 92, 98–100, 102, 103, 106–108, 110, 111, 120, 122 and 123–125 were amended, paragraphs 18A, 20A, 90A–90O, 97A–97H, 111A, 111B and 122A added and paragraphs 7 and 96 deleted by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 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

…

Exclusion of Goodwill from Scope

BC8. IAS 36 contains extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment. In developing IPSAS 26, t~~T~~he IPSASB considered whether goodwill should be within the scope of this Standard. The IPSASB ~~has~~ had not yet issued an IPSAS dealing with entity combinations and consider~~s~~ed it likely that a number of public sector-specific issues ~~will~~ would arise when combinations of public sector entities take place: in particular, whether an acquirer can always be identified in combinations of public sector entities. The IPSASB concluded that goodwill should not be within the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, users ~~are~~ were referred to the requirements of the relevant international or national accounting standards dealing with the impairment of goodwill, the allocation of goodwill to cash-generating units, and the testing for impairment of cash-generating units with goodwill.

BC8A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

BC8B. As a consequence of the IPSASB's decision that goodwill should be considered a cash-generating asset for the purposes of impairment, the IPSASB agreed to incorporate into IPSAS 26 the extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment contained in IAS 36.

Implementation Guidance

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

…

Including Goodwill in the Carrying Amount of an Operation on Disposal

Background

IG24A. A municipality sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

Accounting Treatment

IG24B. Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 percent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Reallocation of Goodwill when a Cash-Generating Unit is Restructured.

Background

IG24C. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Accounting Treatment

IG24D. Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

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:

…

- ~~Goodwill is outside the scope of IPSAS 26. IAS 36 includes extensive requirements and guidance on the impairment of goodwill, the allocation of goodwill to cash-generating units, and testing cash-generating units with goodwill for impairment.~~

…

Amendments to IPSAS 27, *Agriculture*

Paragraph 48 is amended and paragraph 56F is added. New text is underlined and deleted text is struck through.

Disclosure

General

…

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

…

(g) **Increases resulting from ~~entity combinations~~ <u>public sector combinations</u>;**

…

Effective Date

…

<u>56F.</u> **<u>Paragraph 48 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall apply IPSAS 40 at the same time.</u>**

Amendments to IPSAS 29, Financial Instruments: Recognition and Measurement

Paragraphs 2, AG35, AG131 and B4 are amended and paragraph 125F is added. New text is underlined and deleted text is struck through.

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments, except:**

…

(f) **Any forward contracts between an acquirer and seller to buy or sell an acquired operation ~~acquiree~~ that will result in a public sector combination ~~an entity combination~~ at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.**

…

Effective Date

…

125F. **Paragraphs 2, AG35, AG131 and B4 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Application Guidance

This Appendix is an integral part of IPSAS 29.

…

Definitions (paragraphs 9 and 10)

…

Held-to-Maturity Investments

…

AG35. Sales before maturity could satisfy the condition in paragraph 10 – and therefore not raise a question about the entity's intention to hold other investments to maturity – if they are attributable to any of the following:

…

(c) A major public sector combination ~~entity combination~~ or major disposition (such as a sale of a segment) that necessitates the sale or transfer of held-to-maturity investments to maintain the entity's existing interest rate risk position or credit risk policy (although the public sector combination ~~entity combination~~ is an event within the entity's control, the changes to its investment portfolio to maintain an interest rate risk position or credit risk policy may be consequential rather than anticipated).

…

Hedging (paragraphs 80–113)

…

Hedged Items (paragraphs 87–94)

Qualifying Items (paragraphs 87–89)

AG131. A firm commitment to acquire an entity or an integrated set of activities in a public sector combination ~~an entity combination~~ cannot be a hedged item, except for foreign exchange risk, because the other risks being hedged cannot be specifically identified and measured. These other risks are general operational risks.

Appendix B

Reassessment of Embedded Derivatives

This Appendix is an integral part of IPSAS 29.

Introduction

…

B4. This appendix applies to all embedded derivatives within the scope of IPSAS 29 except the acquisition of contracts with embedded derivatives in a public sector combination ~~an entity combination~~ or their possible reassessment at the date of acquisition.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 29.

…

Section F: Hedging

…

F.2 Hedged Items

…

F.2.3 Hedge Accounting: Core Deposit Intangibles

Is hedge accounting treatment permitted for a hedge of the fair value exposure of core deposit intangibles?

It depends on whether the core deposit intangible is generated internally or acquired (e.g., as part of a public sector combination ~~an entity combination~~).

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 3, 6, 18, 24, 40, 41, 66, 67, and 117 are amended, paragraphs 18A, 26A, 39A–39E, 93A, 114A and 132H are added, and additional headings are inserted after paragraphs17 and 39. 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;**

   …

   ~~(e) **Intangible assets acquired in a business combination (see the relevant international or national accounting standard dealing with business combinations)**~~**;**

   ~~(f) **Goodwill acquired in a business combination (see the relevant international or national accounting standard dealing with business combinations);**~~

   …

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

   …

   (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* and IPSAS 36, *Investments in Associates and Joint Ventures*;~~ and~~

   (e) Recognition and initial measurement of service concession assets that are within the scope of IPSAS 32, *Service Concession Assets: Grantor*. However, this Standard applies to the subsequent measurement and disclosure of such assets~~.~~; and

(f) Goodwill (see IPSAS 40, *Public Sector Combinations)*.

…

Definitions

…

Intangible Assets

…

Identifiability

18. Not all the items described in paragraph 17 meet the definition of an intangible asset, i.e., identifiability, control over a resource, and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred. However, if the item is acquired in an acquisition, it forms part of the goodwill recognized at the acquisition date (see paragraph 66).

18A. The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

…

Control of an Asset

…

24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect such relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of an acquisition)

provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the relationships with the users of a service. Because such exchange transactions also provide evidence that the relationships with users of a service are separable, those relationships meet the definition of an intangible asset.

…

Recognition and Measurement

…

26A. Paragraphs 32–39 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 39A–41 deal with their application to intangible assets acquired in a public sector combination. Paragraphs 42–43 deal with the initial measurement of intangible assets acquired through non-exchange transactions, paragraphs 44–45 with exchanges of intangible assets, and paragraphs 46–48 with the treatment of internally generated goodwill. Paragraphs 49–65 deal with the initial recognition and measurement of internally generated intangible assets.

…

Acquisition of an Intangible Asset as Part of an Acquisition (Public Sector Combination)

39A. In accordance with IPSAS 40, if an intangible asset is acquired in an acquisition, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for intangible assets acquired in acquisitions. If an asset acquired in an acquisition is separable or arises from binding arrangements (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 28(b) is always considered to be satisfied for intangible assets acquired in acquisitions.

39B. In accordance with this Standard and IPSAS 40, an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquired operation, irrespective of whether the asset had been recognized by the acquired operation before the acquisition. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquired operation if the project meets the definition of an intangible asset. An acquired operation's in-process research and development project meets the definition of an intangible asset when it:

(a) Meets the definition of an asset; and

(b) Is identifiable, i.e., is separable or arises from binding arrangements (including rights from contracts or other legal rights).

Intangible Asset Acquired in an Acquisition (Public Sector Combination)

39C. If an intangible asset acquired in an acquisition is separable or arises from a binding arrangement (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset's fair value.

39D. An intangible asset acquired in an acquisition might be separable, but only together with a related binding arrangement, identifiable asset or liability. In such cases, the acquirer recognizes the intangible asset separately from goodwill, but together with the related item.

39E. The acquirer may recognize a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.

Subsequent Expenditure on an Acquired In-process Research and Development Project

40. **Research or development expenditure that:**

(a) **Relates to an in-process research or development project acquired separately or in an acquisition and recognized as an intangible asset; and**

(b) **Is incurred after the acquisition of that project;**

shall be accounted for in accordance with paragraphs 52–60.

41. Applying the requirements in paragraphs 52–60 means that subsequent expenditure on an in-process research or development project acquired separately or in an acquisition and recognized as an intangible asset is:

(a) Recognized as an expense when incurred if it is research expenditure;

(b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 55; and

(c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 55.

…

Recognition of an Expense

66. **Expenditure on an intangible item shall be recognized as an expense when it is incurred unless:**

(a) **I~~i~~t forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 26–65); or**

(b) **The item is acquired in an acquisition and cannot be recognized as an intangible asset. If this is the case, it forms part of the amount recognized as goodwill at the acquisition date (see IPSAS 40).**

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. 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.

…

Useful Life

…

93A. **The useful life of:**

(a) **A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or**

(b) **A reacquired right recognized as an intangible asset in an acquisition**

is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and shall not include renewal periods.

…

Retirements and Disposals

…

114A. In the case of:

(a) A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or

(b) A reacquired right recognized as an intangible asset in an acquisition,

if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.

…

Disclosure

General

117. An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;

…

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

(i) Additions, indicating separately those from internal development, ~~and~~ those acquired separately, and those acquired through acquisitions;

…

Effective Date

…

132H. **Paragraphs 3, 6, 18, 24, 40, 41, 66, 67, and 117 were amended and paragraphs 18A, 26A, 39A–39E, 93A and 114A were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Therefore, amounts recognized for intangible assets and goodwill in prior public sector combinations shall not be adjusted. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

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

…

Scope

…

BC4. IAS 38 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. In issuing IPSAS 31, the ~~The~~ IPSASB considered whether goodwill and intangible assets acquired in a business combination should be included in the scope of this Standard. The IPSASB ~~has~~ had not yet issued an IPSAS dealing with business combinations and ~~considers~~ considered it likely that a number of public sector specific issues will arise when combinations of public sector entities take place. The IPSASB concluded at that time that goodwill and intangible assets acquired in a business combination should not be included in the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Policies and Errors*, users ~~are~~ were referred to the requirements of the relevant international or national accounting standards dealing with goodwill and intangible assets acquired in a business combination.

BC4A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations*. IPSAS 40 specifies the accounting for public sector combinations, including the initial recognition and measurement of intangible assets. IPSAS 40 does not specify the subsequent measurement and disclosure of intangible assets recognized as part of a public sector combination. Consequently, the IPSASB reconsidered whether goodwill and intangible assets recognized in a public sector combination should be included in the scope of this Standard. The IPSASB agreed that such assets should be included in the scope of this Standard as a result of the IPSASB issuing IPSAS 40, and amended the Standard accordingly.

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:

…

- ~~IAS 38 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. IPSAS 31 does not include this guidance.~~

…

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

Paragraphs 86, 129, 130 and 132 are amended, paragraphs 62A–62C, and 156 are added, and an additional heading is inserted after paragraph 62. 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

…

Other Exemptions

…

IPSAS 40, Public Sector Combinations

62A. **Where a first-time adopter applies the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure assets and/or liabilities, the first-time adopter may be a party to a public sector combination during that three year transitional relief period. The first-time adopter is not required to recognize and/or measure the assets and/or liabilities associated with the public sector**

combination, until the exemption that provided the relief has expired and/or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

62B. **Where a first-time adopter applies the exemption in paragraph 62A it shall not recognize goodwill in respect of an acquisition. The first-time adopter shall recognize the difference between (a) and (b) below in net assets/equity:**

(a) **The aggregate of:**

(i) **Any consideration transferred;**

(ii) **Any non-controlling interests in an acquired operation; and**

(iii) **Any previously held equity interests in an acquired operation.**

(b) **The net amounts of any identifiable assets acquired and the liabilities assumed.**

62C. IPSAS 40 is applied prospectively. Consequently, a first-time adopter does not adjust any amounts of goodwill recognized as a result of a public sector combination that occurred prior to the application of IPSAS 40.

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

…

IPSAS 4, The Effects of Changes in Foreign Exchange Rates

86. **A first-time adopter shall apply the requirement to treat any goodwill (see ~~the relevant international or national accounting standard dealing with entity combinations~~ IPSAS 40) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of adoption of IPSASs.**

…

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 ~~entity combination~~ public sector combination in which the controlling entity acquired the controlled entity; or**

…

130. **However, if a controlling entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the controlling entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the ~~entity combination~~ public sector combination in which the controlling entity acquired the controlled entity (or associate or joint venture), subject to the exemptions that may be adopted in terms of this IPSAS. Similarly, if a controlled entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, subject to the exemptions that may be adopted in this IPSAS, except for consolidation adjustments.**

…

IPSAS 37, Joint Arrangements

132. **Where a first-time adopter accounted for its investment in a joint venture under its previous basis of accounting basis using proportionate consolidation, the investment in the joint venture shall be measured on the date of adoption as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (see ~~the relevant international or national accounting standard dealing with entity combinations~~ IPSAS 40).**

…

Effective Date

…

156. **Paragraphs 86, 129, 130 and 132 were amended and paragraphs 62A–62C were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

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

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

…

IPSAS 40, Public Sector Combinations

BC79A. In developing IPSAS 40, *Public Sector Combinations*, the IPSASB considered whether it should provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination. The IPSASB noted that IPSAS 40 is applied prospectively, and so its application would not require a first-time adopter to adjust their accounting for a public sector combination that occurred prior to the application of that Standard. However, a public sector combination could occur during a first-time adopter's three year transitional relief period. The IPSASB considered that requiring a first-time adopter to recognize and measure all the assets and liabilities associated with a public sector combination without requiring them to recognize and measure all similar assets and liabilities would not provide useful information for the users of the financial statements.

BC79B. Consequently, the IPSASB agreed to provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination as part of this Standard. The IPSASB also agreed that a first-time adopter should not recognize goodwill where it did not recognize and/or measure all the assets and/or liabilities associated with a public sector combination.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

IPSAS 35, Consolidated Financial Statements

IG82. If a first-time adopter did not consolidate a controlled entity in accordance with its previous basis of accounting, then, in its consolidated financial statements, the first-time adopter measures the controlled entity's assets and liabilities at the same carrying amounts as in the accrual basis financial statements of the controlled entity following its adoption of IPSASs, after adjusting for consolidation procedures and for the effects of the ~~entity combination~~ public sector combination in which it acquired the controlled entity (paragraph 130 of IPSAS 33). If the controlled entity has not adopted accrual basis IPSASs in its financial statements, the carrying amounts described in the previous sentence are those that IPSASs would require in those financial statements.

Amendments to IPSAS 35, Consolidated Financial Statements

Paragraphs 4, 40, 52, 56, 57 and 63 are amended and paragraphs 55A, 79B and 79C are added. New text is underlined and deleted text is struck through.

Scope

…

Public Sector Combinations

4. This Standard does not deal with the accounting requirements for public sector combinations and their effect on consolidation, including goodwill arising on a public sector combination (see ~~the relevant international or national accounting standard dealing with public sector combinations~~ IPSAS 40, *Public Sector Combinations*).

…

Accounting Requirements

…

Consolidation Procedures

40. Consolidated financial statements:

…

(b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity (~~the relevant international or national accounting standards~~ IPSAS 40 explains how to account for any related goodwill).

…

Loss of Control

52. **If a controlling entity loses control of a controlled entity, the controlling entity:**

(a) **Derecognizes the assets and liabilities of the former controlled entity from the consolidated statement of financial position;**

(b) **Recognizes any investment retained in the former controlled entity ~~at its fair value when control is lost~~ and subsequently accounts for it and for any amounts owed by or to the former controlled entity in accordance with relevant IPSASs. That ~~fair value~~ retained interest is remeasured, as described in paragraphs 54(b)(iii) and 55A. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IPSAS 29 or the cost on initial recognition of an investment in an associate or joint venture, if applicable; and**

(c) **Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs 54–55A.**

…

55A. **If a controlling entity loses control of a controlled entity that does not contain an operation, as defined in IPSAS 40, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the controlling entity determines the gain or loss in accordance with paragraphs 54–55. The gain or loss resulting from the transaction is recognized in the controlling entity's surplus or deficit only to the extent of the unrelated investors' interests in that associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment in that associate or joint venture. In addition, if the controlling entity retains an investment in the former controlled entity and the former controlled entity is now an associate or a joint venture that is accounted for using the equity method, the controlling entity recognizes the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former controlled entity in its surplus or deficit only to the extent of the unrelated investors' interests in the new associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former controlled entity. If the controlling entity retains an investment in the former controlled entity that is now accounted for in accordance with IPSAS 29, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained**

in the former controlled entity is recognized in full in the controlling entity's surplus or deficit.

Investment Entities: Fair Value Requirement

56. **Except as described in paragraph 57, an investment entity shall not consolidate its controlled entities or apply IPSAS 40 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29.**

57. **Notwithstanding the requirement in paragraph 56, if an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs AG98–AG100), it shall consolidate that controlled entity in accordance with paragraphs 38–55 of this Standard and apply the requirements of IPSAS 40 to the acquisition of any such controlled entity.**

…

Accounting for a Change in Investment Entity Status

63. **When an entity ceases to be an investment entity, it shall apply ~~the relevant international or national accounting standard dealing with public sector combinations~~ IPSAS 40 to any controlled entity that was previously measured at fair value through surplus or deficit in accordance with paragraph 56. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All controlled entities shall be consolidated in accordance with paragraphs 38–51 of this Standard from the date of change of status.**

…

Effective Date

…

79B. Paragraphs 4, 40, 56, 57 and 63 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.

79C. **Paragraph 52 was amended and paragraph 55A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 35.

…

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

…

BC57. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the loss of control of a former controlled entity to an investor's associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 35 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the loss of control of a former controlled entity *that does not contain an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 35.

BC58. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 35, to be applied from a date to be determined by the IPSASB.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 35.

…

Accounting requirements: loss of control (paragraphs 52–55A)

IE13A. The following example illustrates the treatment of a sale of an interest in a controlled entity that does not contain an operation.

Example 44A

A controlling entity has a 100 per cent interest in a controlled entity that does not contain an operation. The controlling entity sells 70 per cent of its interest in the controlled entity to an associate in which it has a 20 per cent interest. As a consequence of this transaction, the controlling entity loses control of the controlled entity. The carrying amount of the net assets of the subsidiary is CU100 and the carrying amount of the interest sold is CU70 (CU70 = CU100 × 70%). The fair value of the consideration received is CU210, which is also the fair value of the interest sold. The investment retained in the former controlled entity is an associate accounted for using the equity method and its fair value is CU90. The gain determined in accordance with paragraphs 54–55, before the elimination required by paragraph 55A, is CU200 (CU200 = CU210 + CU90 – CU100). This gain comprises two parts:

(a) The gain (CU140) resulting from the sale of the 70 per cent interest in the controlled entity to the associate. This gain is the difference between the fair value of the consideration received (CU210) and the carrying amount of the interest sold (CU70). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the existing associate. This is 80 per cent of this gain, that is CU112 (CU112 = CU140 × 80%). The remaining 20 per cent of the gain (CU28 = CU140 × 20%) is eliminated against the carrying amount of the investment in the existing associate.

(b) The gain (CU60) resulting from the remeasurement at fair value of the investment directly retained in the former controlled entity. This gain is the difference between the fair value of the investment retained in the former controlled entity (CU90) and 30 per cent of the carrying amount of the net assets of the controlled entity (CU30 = CU100 × 30%). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the new associate. This is 56 per cent (70% × 80%) of the gain, that is

CU34 (CU34 = CU60 × 56%). The remaining 44 per cent of the gain CU26 (CU26 = CU60 × 44%) is eliminated against the carrying amount of the investment retained in the former controlled entity.

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraphs 26, 31 and 33 are amended and paragraphs 34A, 34B, 51B and 51C are added. New text is underlined and deleted text is struck through.

Application of the Equity Method

…

Discontinuing the Use of the Equity Method

26. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**

(a) **If the investment becomes a controlled entity, the entity shall account for its investment in accordance with ~~the relevant national or international pronouncement dealing with public sector combinations~~ IPSAS 40, *Public Sector Combinations* and IPSAS 35.**

…

Equity Method Procedures

…

31. Gains and losses resulting from "upstream" and "downstream" transactions involving assets that do not constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. The entity's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. ~~The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.~~

…

33. The gain or loss resulting from the contribution of ~~a~~ 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 ~~the~~ 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, *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.

…

34A. The gain or loss resulting from a downstream transaction involving assets that constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture is recognized in full in the investor's financial statements.

34B. An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute an operation, as defined in IPSAS 40, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph 53 of IPSAS 35.

…

Effective Date

…

51B. **Paragraph 26 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

51C. **Paragraphs 31 and 33 were amended and paragraphs 34A and 34B added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments for a period earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 36.

…

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

…

<u>BC15. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the sale or contribution of assets between an investor and its associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 36 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 36.</u>

<u>BC16. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 36, to be applied from a date to be determined by the IPSASB.</u>

Amendments to IPSAS 37, *Joint Arrangements*

Paragraph 32 is amended and paragraphs 24A, 41A, 42B, 42C and AG33A–AG33D are added. The heading before paragraph 23 is amended and additional headings are added before paragraphs 41A and AG33A. New text is underlined and deleted text is struck through.

Financial Statements of Parties to a Joint Arrangement (see paragraphs ~~AG34~~ AG33A–AG37)

Joint Operations

…

24A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations*, it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSASs, that do not conflict with the guidance in this Standard, and disclose the information that is required in those IPSASs in relation to acquisitions. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes an operation. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs AG33A–AG33D.

…

Transitional Provisions

…

Joint Ventures—Transition from Proportionate Consolidation to the Equity Method

…

32. **When changing from proportionate consolidation to the equity method, an entity shall recognize its investment in the joint venture as at the beginning of the immediately preceding period. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions ~~(guidance on accounting for the acquisition of an entity and the allocation of goodwill to joint ventures can be found in the relevant international or national standards on entity combinations and joint arrangements)~~. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.**

…

Accounting for Acquisitions of Interests in Joint Operations

41A. IPSAS 40, *Public Sector Combinations*, issued in January 2017, added paragraphs 24A, 42B, and AG33A–AG33D. An entity shall apply those amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute operations, as defined in IPSAS 40, for those acquisitions occurring from the beginning of the first period in which it applies those amendments. Consequently, amounts recognized for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.

Effective Date

…

42B. **Paragraphs 24A, 41A and AG33A–AG33D were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

42C. **Paragraph 32 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Application Guidance

This Appendix is an integral part of IPSAS 37.

…

Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

Accounting for Acquisitions of Interests in Joint Operations

AG33A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSASs, that do not conflict with the guidance in this Standard and disclose the information required by those IPSASs in relation to acquisitions. The principles on acquisition accounting that do not conflict with the guidance in this Standard include but are not limited to:

(a) Measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in IPSAS 40 and other IPSASs;

(b) Recognizing acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognized in accordance with IPSAS 28 and IPSAS 29;

(c) Recognizing the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and

(d) Testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by IPSAS 26, *Impairment of Cash-Generating Assets*, for goodwill acquired in an acquisition.

AG33B. Paragraphs 24A and AG33A also apply to the formation of a joint operation if, and only if, an existing operation, as defined in IPSAS 40, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute operations to the joint operation on its formation.

AG33C. A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

AG33D. Paragraphs 24A and AG33A–AG33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 37.

Acquisition of an Interest in a Joint Operation

…

BC9. At the time the IPSASB developed IPSAS 40, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the acquisition of an interest in a joint operation that constitutes an operation. The IPSASB reviewed the guidance issued by the IASB in *Accounting for*

Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) and did not identify a public sector reason to depart from that guidance. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 37.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 37.

…

Example 8—Accounting for acquisitions of interests in joint operations in which the activity constitutes an operation

IE60. Municipalities A, B and C have joint control of Joint Operation D whose activity constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations*.

IE61. Municipality E acquires municipality A's 40 per cent ownership interest in Joint Operation D at a cost of CU300 and incurs acquisition-related costs of CU50.

IE62. The binding arrangement between the parties that Municipality E joined as part of the acquisition establishes that Municipality E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Municipality E's share in the assets and liabilities related to Joint Operation D as established in the binding arrangement between the parties:

	Municipality E's share in the assets and liabilities related to Joint Operation D
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%
Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

IE63. Municipality E recognizes in its financial statements its share of the assets and liabilities resulting from the contractual arrangement (see paragraph 23).

IE64. It applies the principles on acquisition accounting in IPSAS 40 and other IPSASs for identifying, recognizing, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint Operation D. This is because Municipality E acquired an interest in a joint operation in which the activity constitutes an operation (see paragraph 24A).

IE65. However, Municipality E does not apply the principles on acquisition accounting in IPSAS 40 and other IPSASs that conflict with the guidance in this Standard. Consequently, in accordance with paragraph 23, Municipality E recognizes, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the binding arrangement. Municipality E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.

IE66. IPSAS 40 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, a reacquired right recognized as an intangible asset is measured on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Such measurement does not conflict with this Standard and thus those requirements apply.

IE67. Consequently, Municipality E determines the fair value, or other measure specified in IPSAS 40, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value or other measure specified by IPSAS 40 of Municipality E's shares in the identifiable assets and liabilities related to Joint Operation D:

	Fair value or other measure specified by IPSAS 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D **(CU)**
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70

	***Fair value or other measure specified by IPSAS 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D* (CU)**
Retirement benefit obligations	(12)
Accounts payable	(48)
Contingent liabilities	(52)
Deferred tax liability (see the international or national standard dealing with income taxes)	(24)
Net assets	**228**

IE68. In accordance with IPSAS 40, the excess of the consideration transferred over the amount allocated to Municipality E's shares in the net identifiable assets is recognized as goodwill:

Consideration transferred	CU300
Municipality E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	CU228
Goodwill	**CU72**

IE69. Acquisition-related costs of CU50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognized as expenses in surplus or deficit in the period that the costs are incurred and the services are received (see paragraph 113 of IPSAS 40).

Example 9—Contributing the right to use know-how to a joint operation in which the activity constitutes an operation

IE70. Entities A and B are two entities whose activities are the construction of high performance batteries for diverse applications.

IE71. In order to develop batteries for electric vehicles they set up a binding arrangement (Joint Operation Z) to work together. Entities A and B share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes an operation, as defined in IPSAS 40.

IE72. After several years, the joint operators (Entities A and B) concluded that it is feasible to develop a battery for electric vehicles using Material M. However, processing Material M requires specialist know-how and thus far, Material M has only been used in electricity generation.

IE73. In order to get access to existing know-how in processing Material M, Entities A and B arrange for Entity C to join as another joint operator by acquiring an interest in Joint Operation Z from Entities A and B and becoming a party to the binding arrangements.

IE74. Entity C's activity so far has been solely the generation of electricity. It has long-standing and extensive knowledge in processing Material M.

IE75. In exchange for its share in Joint Operation Z, Entity C pays cash to Entities A and B and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Entity C seconds some of its employees who are experienced in processing Material M to Joint Operation Z. However, Entity C does not transfer control of the know-how to Entities A and B or Joint Operation Z because it retains all the rights to it. In particular, Entity C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Entity A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE76. The fair value of Entity C's know-how on the date of the acquisition of the interest in the joint operation is CU1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Entity C was CU300.

Analysis

IE77. Entity C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40.

IE78 In accounting for the acquisition of its interest in the joint operation, Entity C applies all the principles on acquisition accounting in IPSAS 40 and other IPSASs that do not conflict with the guidance in this Standard (see paragraph 24A). Entity C therefore recognizes in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE79. Entity C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Entity C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to

Entities A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE80. Consequently, Entity C continues to recognize the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Entity C will continue to recognize the know-how based on its carrying amount of CU300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Entity C has granted the right to use the know-how to itself. Consequently, Entity C does not remeasure the know-how, and it does not recognize a gain or loss on the grant of the right to use it.

Comparison with IFRS 11

IPSAS 37, *Joint Arrangements*, is drawn primarily from IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 11 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 37 and IFRS 11 are as follows:

…

- ~~IPSAS 37 does not provide guidance on the allocation of goodwill to joint ventures or on how to account for the acquisition of an interest in a joint operation that constitutes a business. Such guidance is included in IFRS 11.~~

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 40.

Objective (paragraph 1)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with public sector combinations, public sector entities are directed, in IPSAS 1, *Presentation of Financial Statements,* to look to other international or national accounting standards. In the case of public sector combinations, they may look to International Financial Reporting Standard (IFRS®) 3, *Business Combinations*. However, IFRS 3 requires all business combinations to be accounted for using acquisition accounting. In developing IFRS 3, the International Accounting Standards Board (IASB®) came to the conclusion that 'true mergers' or 'mergers of equals' in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. The IASB also observed that respondents and other constituents were unable to suggest an unambiguous and non-arbitrary boundary for distinguishing true mergers or mergers of equals from other business combinations and concluded that developing such an operational boundary would not be feasible (see IFRS 3, BC35). Consequently, the IASB decided that separate accounting requirements for such combinations was not necessary.

BC2. Many consider that in the public sector, mergers or amalgamations are the most common form of combination. As a result, public sector entities may not apply IFRS Standards when accounting for public sector combinations. This means that there may not be consistent or appropriate reporting of such combinations in general purpose financial statements (GPFSs). Consequently, users may not be able to obtain the information needed to identify the type of public sector combination and evaluate its nature and financial effect. The IPSASB believes this Standard will promote consistency and comparability in how public sector combinations are reported by public sector entities.

Process

BC3. In developing this Standard the IPSASB had regard to the discussion of control in IPSAS 35, *Consolidated Financial Statements*. The IPSASB considered how control, as defined in IPSAS 35, should influence the classification of public sector combinations in this Standard. The IPSASB also had regard to the guidance on combinations in the *Government Finance Statistics Manual* 2014 (GFSM 2014) with the aim of avoiding unnecessary differences. The IPSASB also considered IFRS 3 and guidance on combinations developed by national standard setters.

Alignment with Government Finance Statistics (GFS)

BC4. In developing this Standard, the IPSASB had regard to the treatment of public sector combinations in Government Finance Statistics (GFS):

GFS guidelines make a distinction between an acquisition and an amalgamation based on the principle that with an acquisition a transaction occurs, while with an amalgamation just a reclassification of units may occur.

A transaction will occur where a "market unit" is nationalized or privatized (that is, entering government control or leaving it), and the amounts are recorded in GFS as transactions in equity that correspond to the observed transaction price. Any changes in valuation–for example, between the opening balance of a government equity stake and the eventual transaction price–are recorded as revaluation effects, with no impact on government net lending/ net borrowing. For amalgamations, the main impact is on the sectorization of the "institutional units".

Where the units before amalgamation belonged to the same sector or subsector of general government, the amalgamation will have no impact on the data for that sector or subsector. For example, an amalgamation of two local governments, where both are already classified to the local government sector, would not change results for the local government sector.

However, in cases where a unit in one subsector is being amalgamated with a unit in another subsector, the amalgamated units will be removed from the sector they belonged to and be added to the sector of the new amalgamated unit, through a reclassification of the unit (recorded in GFS as an "other volume change in assets and liabilities"). For example, if a local government unit is amalgamated with a state government, the unit will be reclassified from the local government subsector to the state government subsector.

BC5. The IPSASB agreed the approach in GFS was not an appropriate basis for classifying public sector combinations in this Standard, for the following reasons:

(a) The approach in GFS is based on a number of concepts that have no equivalent in IPSASs, for example:

(i) The classification of institutional units into sectors based on their economic nature; and

(ii) The distinction between market producers and nonmarket producers.

(b) Amalgamations in GFS can arise from a reclassification of units without a transaction being recorded, which is inconsistent with the approach in IPSASs; and

(c) Public sector combinations within the same sector or subsector of general government have no impact on the data in GFS, whereas IPSASs would require the changes to individual entities to be accounted for.

BC6. In coming to this conclusion the IPSASB noted that the different approaches in GFS and IPSASs may lead to similar accounting, for example:

(a) Nationalizations are likely to be recorded as acquisitions under both approaches; and

(b) The modified pooling of interests method of accounting will produce similar accounting to the GFS reclassification approach where the combining operations had previously adopted the same accounting policies.

Scope (paragraphs 2–4)

BC7. The IPSASB initially considered developing two Standards on public sector combinations, covering:

(a) Entity combinations arising from exchange transactions—a limited convergence project with IFRS 3; and

(b) Entity combinations arising from non-exchange transactions—a public sector-specific project.

BC8. In May 2009, the IPSASB issued Exposure Draft (ED) 41, *Entity Combinations from Exchange Transactions*, which was the limited convergence project with IFRS 3. Following the consultation process on ED 41, the IPSASB decided not to continue with this approach for the following reasons:

(a) IFRS 3 includes bargain purchases within its scope. It could be argued, therefore, that IFRS 3 also applies to at least some non-exchange entity combinations. The IPSASB acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations.

(b) It was not clear whether combinations where no party gains control of the other parties to the combination would be classified as entity combinations arising from exchange transactions, and therefore required to be accounted for as an acquisition in accordance with ED 41.

BC9. Subsequently, the IPSASB decided to develop a single standard dealing with all public sector combinations. This wider scope was included in the Consultation Paper (CP), *Public Sector Combinations*, issued in June 2012. Respondents to the CP supported this wider scope.

BC10. The IPSASB, therefore, decided that this Standard should apply to all public sector combinations, with only limited exceptions. This Standard defines a public sector combination as the bringing together of separate operations into one public sector entity. This definition refers to the bringing together of operations rather than entities, as public sector combinations, in common with business combinations, may involve part of an entity that can be managed separately from the rest of the entity.

BC11. In coming to a decision on the scope of this Standard, the IPSASB agreed to include public sector combinations under common control. While these are excluded from the scope of IFRS 3, the IPSASB considered it important that this Standard included all public sector combinations within its scope.

Scope Exclusions

BC12. The IPSASB agreed that this Standard should not apply to the formation of joint arrangements or joint ventures. The IPSASB stated in the CP that:

> "The concept underlying the formation of a joint venture differs from other combinations, in that the formation arises from separate entities deciding to share control, i.e., they have joint control of the operations that form the joint venture. The concept of joint control may give rise to issues that affect how the joint venture itself should account for its formation."

BC13. In developing this Standard, the IPSASB discussed whether this rationale was still valid given that this Standard takes a different approach to classifying public sector combinations. The IPSASB concluded that the concept of joint control does not reflect the issues addressed in this Standard, and agreed to exclude the formation of joint arrangements or joint ventures from its scope.

BC14. The IPSASB noted that combinations of two or more joint arrangements may occur. The IPSASB considered that, where such a combination results in the formation of a new joint arrangement, this would be outside the scope of IPSAS 40. The IPSASB noted that a combination may result in the acquisition of one or more joint arrangements by another joint arrangement. In such circumstances, the entities that previously had control over the acquired joint arrangements give up that joint control. Such a combination would be an acquisition within the scope of IPSAS 40.

BC15. The IPSASB also agreed to exclude from the scope of this Standard the acquisition by an investment entity of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit. Such transactions are considered to be investments rather than public sector combinations. IPSAS 35 prescribes the accounting requirements for such transactions.

Responses to ED 60, Public Sector Combinations

BC16. The IPSASB issued its proposals in ED 60, *Public Sector Combinations*, in January 2016. Respondents to ED 60 generally supported the proposed scope and the exclusions. The IPSASB considered the responses, and agreed that no changes to the scope were required. In doing so, the IPSASB noted that the scope of the standard included combinations undertaken on a temporary basis, for example the bailout of a private sector company with the intention of selling that company as soon as it was returned to a sound financial position. The IPSASB noted that including such combinations within the scope of this Standard was consistent with the decision taken in developing IPSAS 35 not to require a different accounting treatment for temporarily controlled entities.

Classification of Public Sector Combinations (paragraphs 7–14)

BC17. As a result of the responses it received to ED 41, the IPSASB concluded that distinguishing between entity combinations arising from exchange transactions and entity combinations arising from non-exchange transactions did not provide a suitable basis for a future IPSAS. Relying on the definition of "exchange transactions" in the IPSASB's literature would mean that most government interventions during times of economic crisis, such as the global financial crisis in 2008, would not meet the definition of an acquisition. The IPSASB considered it inappropriate to define such "bailouts" as amalgamations.

BC18. The IPSASB also noted that IFRS 3 applied to a "business", not to an entity. As well as applying to an entity, the definition of a business could also apply to part of an entity that could be managed separately from the rest of the entity. The IPSASB had regard to these issues in developing its approach in the CP.

Classification Approach in the Consultation Paper, Public Sector Combinations

BC19. The approach taken in the CP was to distinguish between combinations where the parties to the combination are under common control, and combinations where the parties to the combination are not controlled by the same ultimate controlling party, i.e., not under common control. A further distinction was made between combinations where one party gains control of another party (considered by the CP to be acquisitions), and combinations where no party gains control of the other parties to the combination (considered by the CP to be amalgamations).

BC20. The IPSASB considered that the concept of control was important in determining the classification of a public sector combination. Control underpins much of financial reporting. IPSAS 35 requires an entity to consolidate those other entities that it controls, as does the predecessor standard, IPSAS 6, *Consolidated and Separate Financial Statements*. The IPSASB also noted that Government Finance Statistics adopts a similar approach to control as that adopted in both IPSAS 35 and IPSAS 6.

BC21. Similarly, control is an important factor when recognizing assets. Paragraph 5.6 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) defines an asset as "A resource presently controlled by the entity as a result of a past event."

BC22. The IPSASB determined, therefore, that control was an appropriate starting point for the classification of public sector combinations. As a result, the CP included the IPSASB's preliminary view as to the role of control in classifying public sector combinations:

"The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations."

BC23. In developing the CP, the IPSASB explained that the parties to a public sector combination under common control are ultimately controlled by the same entity both before and after the combination. This leads to economic differences between combinations that take place under common control and those that take place not under common control, as follows:

(a) Public sector combinations between entities within an economic entity (i.e., under common control) do not change the economic resources of that economic entity;

(b) Any surpluses and deficits resulting from a public sector combination under common control are eliminated in full in the ultimate controlling entity's consolidated GPFSs; and

(c) The ultimate controlling entity can specify whether any consideration is transferred (and if consideration is transferred, the amount of that consideration) in a public sector combination under common control.

These differences may have implications for the accounting treatment of a public sector combination under common control.

BC24. The approach in the CP reflected the IPSASB's views that:

(a) The economic differences between combinations that take place under common control and those that take place not under common control may have implications for their accounting treatment; and

(b) Acquisitions should be distinguished from amalgamations on the basis of control.

BC25. Similar numbers of respondents to the CP supported and disagreed with the proposals. Respondents who disagreed with the proposals suggested that distinguishing acquisitions from amalgamations based solely on control did not reflect public sector circumstances. In particular, these respondents noted that

(a) Public sector combinations may occur where it is not possible to identify an acquirer even if it is possible to identify an entity that has gained control of operations as a result of the public sector combination. Under IFRS 3, the acquirer can be identified by analyzing the ownership interests in the respective parties. However, in the public sector there may be no quantifiable ownership interests in the entities, making such an analysis impossible. The entity gaining control of the operations may not have existed prior to the combination, and if there are no quantifiable ownership interests in that entity, it will not be possible to identify an acquirer.

(b) Public sector combinations may be imposed on all parties to the combination by a higher level of government, for example when a central government reorganizes local government by legislating the combination of municipalities irrespective of the wishes of those municipalities.

BC26. Respondents who disagreed with the proposals in the CP suggested a number of alternative bases for classifying public sector combinations, including:

(a) Variations of whether consideration was transferred:

(i) Consideration was transferred as part of the combination;

(ii) Significant consideration was transferred as part of the combination;

(iii) The combination was effected at market value;

(iv) Distinguishing acquisitions (which include the transfer of consideration) not under common control from all other combinations; and

(v) Distinguishing between combinations under common control on the basis of whether the combination has "commercial substance" (which includes the transfer of consideration).

(b) Whether the public sector combination was effected voluntarily or involuntarily.

Development of the Classification Approach in ED 60, Public Sector Combinations

BC27. The IPSASB considered the responses to the CP. The IPSASB accepted that the classification approach adopted in the CP would not always reflect public sector circumstances. Consequently, the IPSASB agreed to revisit the classification of public sector combinations.

BC28. As part of this process, the IPSASB considered whether any of the approaches suggested by respondents might provide an alternative basis for classification. The IPSASB concluded that these approaches were not suitable, for the following reasons:

(a) The IPSASB came to the view that the transfer of consideration, on its own, was insufficient to distinguish an acquisition from an amalgamation. As noted in paragraph BC17 above, defining an acquisition as an exchange transaction would lead to bailouts being classified as amalgamations. Similarly, if an acquisition was defined as requiring consideration to be transferred by the acquirer, this could lead to bailouts being classified as amalgamations. Definitions of an acquisition that required the transfer of significant consideration, or for the public sector combination to take place at market value, would not address issues such as bargain purchases (discussed above in paragraph BC8(a)).

(b) The IPSASB came to the view that whether a public sector combination was effected voluntarily or involuntarily did not provide, on its own, sufficient information to classify a public sector combination. The voluntary or involuntary nature of a public sector combination provides information as to the process of the combination but not its outcome. Public sector combinations may have different economic outcomes irrespective of their voluntary or involuntary nature. The IPSASB did not consider that it was possible to classify a public sector combination without considering the outcome of that combination. Consequently, the IPSASB did not consider a classification based solely on the voluntary or involuntary nature of the public sector combination would meet the objectives of financial reporting.

BC29. The IPSASB reviewed the role of control in classifying public sector combinations, and concluded that control remained an important factor in determining whether a combination was an acquisition or an amalgamation. In coming to this conclusion, the IPSASB noted that an acquisition could only occur when a party to the combination gained control of one or more operations (this is discussed in more detail in paragraph BC25(a) above). Consequently, the IPSASB reviewed the factors suggested by respondents to the CP to determine which factors might usefully supplement the concept of control.

BC30. The IPSASB discussed the following factors, and agreed that they could be helpful in supplementing the concept of control in classifying public sector combinations:

(a) **Consideration**. The IPSASB agreed that whether a public sector combination includes the transfer of consideration is relevant to classifying the combination. Acquisitions generally include consideration, whereas consideration will be absent from amalgamations. For the reasons given in paragraph BC28(a) above, the IPSASB agreed that the transfer of consideration in itself was not conclusive, and that more information about the nature of a combination would be obtained by having regard to the reasons why consideration was or was not transferred.

(b) **Exchange transactions**. The IPSASB agreed that an acquisition was more likely to occur in an exchange transaction than in a non-exchange transaction. However, the IPSASB had already acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations (see paragraph BC8(a) above). The IPSASB came to the conclusion that information about whether a public sector combination was an exchange transaction or a non-exchange transaction could be determined by having regard to the reasons why consideration was or was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.

(c) **Quantifiable ownership interests**. The IPSASB noted that whether there are quantifiable ownership interests in an operation can influence the economic substance of a public sector combination. If there are no quantifiable ownership interests in an operation, no consideration can be transferred as there is no party with an entitlement to receive the consideration. This can distinguish the combination from an acquisition, where there is always an owner to receive the consideration. The IPSASB noted that that lack of quantifiable ownership interests could be a reason why consideration was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.

(d) **Decision-making process**. The IPSASB agreed that having regard to which parties were able to make decisions regarding a public sector combination could provide useful information about the classification of that combination. In the private sector, combinations are usually entered into voluntarily, at least from the acquirer's perspective. In the public sector, other parties may be involved in the decision-making process. The freedom that the parties to the combination are able to exercise may influence the economic substance of the combination and hence its classification.

(e) **Compulsion**. In the public sector, a public sector combination may be imposed by a higher level of government, whether or not that higher level of government controls the parties to the combination for financial reporting purposes. For example, a central government may restructure local government by directing certain municipalities to combine. The IPSASB agreed that compulsion was relevant to the classification of a public sector combination, but considered that information about compulsion would be obtained by having regard to decision-making. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

(f) **Common control**. In developing the CP, the IPSASB identified the economic differences between public sector combinations that take place under common control and those that take place not under common control (see paragraph BC23 above). The IPSASB agreed that the ability of the controlling entity to specify whether any consideration is transferred is relevant to the classification of the combination, but considered this to be an element of the decision-making process. The fact that the economic resources of the economic entity do not change in a combination under common control, and that any surpluses or deficits would be eliminated on consolidation were seen as relevant to the controlling entity, but not the controlled entity. As the controlled entity will be the reporting entity for the combination, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

(g) **Citizens' rights**. In some jurisdictions, citizens may be part of the decision-making process, for example where public sector combinations are subject to the approval of citizens through a referendum. The IPSASB agreed that citizens' rights to accept or reject the combination was relevant to the classification of the combination. However, the IPSASB considered these rights to be rights to participate in the decision-making process. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

BC31. The IPSASB did not consider that the following factors would be helpful in supplementing the concept of control in classifying public sector combinations:

(a) **Change of sector**. The IPSASB acknowledged that a change of sector would be an indicator of a public sector entity acquiring an operation. However, the IPSASB considered that this change of sector would be a consequence of a change in control rather than a separate factor to be considered. The IPSASB also noted that the classification of institutional units into sectors based on their economic nature of being government units was a feature of GFS that had no equivalent in the IPSASB's literature. This will continue to be a significant difference between macroeconomic statistical reporting and accounting and financial reporting. Consequently, the IPSASB did not consider a change of sector to be a useful factor in classifying public sector combinations.

(b) **Nature of the jurisdiction**. Some responses to the CP suggested that, in jurisdictions where there is significant interaction or redistribution between the different levels of government, the public sector can be seen as operating as part of a single quasi "group" entity. Such a view could have implications for the classification of public sector combinations. The IPSASB did not consider that from the reporting entity's perspective, the nature of the jurisdiction was relevant to the classification of public sector combinations. A reporting entity could make an assessment of control, consideration and decision-making without reference to a quasi-group entity. The IPSASB noted that the nature of the jurisdiction may form part of the assessment of the nature of the public sector combination, which an entity may need to consider when the analysis of all other factors has produced inconclusive results or does not provide sufficient evidence to determine the appropriate classification of a public sector combination.

(c) **Operation of government**. Some respondents to the CP suggested that the operation of government would be relevant to the classification of public sector combinations. Examples given included:

(i) The existence of a ministerial or other government power enabling the government to direct the entity's governing body to achieve the government's policy objectives;

(ii) Ministerial approval is required for operating budgets; and

(iii) The government has broad discretion, under existing legislation, to appoint or remove a majority of the members of the governing body of the entity.

The IPSASB concluded that the examples were indicators of control or common control rather than suggesting an independent factor. As such, the IPSASB did not consider that the operation of government was relevant to the classification of public sector combinations.

(d) **The entity directs public policy and/or engages in non-market activity mainly financed by public resources**. Some respondents to the CP suggested that control should be supplemented by having regard to whether the entity directs public policy and/or engages in non-market activity mainly financed by public resources. Where this was the case, this would suggest an amalgamation. The IPSASB noted that this approach would require the introduction of new concepts into the IPSASB's literature. For example, non-market activity is a GFS concept that the IPSASB has not adopted. The IPSASB did not consider it appropriate to introduce these concepts in ED 60. Consequently, the IPSASB did not consider that this factor was relevant to the classification of public sector combinations.

(e) **Accountability**. Some respondents suggested that accounting for a public sector combination at fair value provides more information about the effect of that combination, but that this is only useful for accountability purposes where the entity was responsible for the decision to combine. The IPSASB did not consider accountability to be a primary factor in its own right, but acknowledged that the information resulting from the classification of a public sector combination should meet the objectives of financial reporting. In exceptional circumstances, when an analysis of consideration and the decision-making process produces an inconclusive result or does not provide sufficient evidence as to the appropriate classification of a public sector combination, an entity may need to consider other matters, including what information would meet the objectives of financial reporting and satisfy the qualitative characteristics (QCs).

BC32. The IPSASB concluded, therefore, that control should be supplemented by two additional factors–whether consideration was transferred, and the reasons for the presence or absence of consideration; and the decision-making process. These factors are wide ranging, and encompass elements of other factors, as discussed above.

BC33. The IPSASB noted that these factors could be used either to supplement the indicators of control in IPSAS 35, or could be used to supplement the control concept in classifying public sector combinations. The IPSASB debated the merits of these two approaches. The IPSASB noted that using the factors to supplement the indicators of control was likely to result in a classification approach that better satisfied the QC of comparability. However, the IPSASB considered that using the factors to supplement the control concept was likely to produce a classification approach that provided more relevant and faithfully representative information. Using the factors to supplement the control concept was also more likely to address the concerns raised by respondents.

BC34. Respondents to the CP had identified difficulties with distinguishing between acquisitions and amalgamations based solely on control that were unlikely to be fully addressed by further development of the indicators of control.

The IPSASB agreed, and concluded that the gaining of control of operations by a party to the combination is an essential element of an acquisition, but is not sufficient in itself to determine whether a combination is an acquisition. Consequently, the IPSASB agreed to develop an approach to classifying public sector combinations that:

(a) Uses the factors to supplement the concept of control; and

(b) Considers control in the context of whether a party to the combination gains control of one or more operations as a result of the combination.

BC35. Having agreed to develop an approach that uses the factors to supplement control, the IPSASB discussed the relative importance to be attached to control and to the other factors in classifying public sector combinations. As part of this discussion, the IPSASB identified the following two approaches:

(a) **Rebuttable presumption approach**. Under this approach, when one party to the combination gains control of an operation, this creates a rebuttable presumption that the combination is an acquisition. This approach gives a strong weighting to the gaining of control, and the analysis of the other factors is focused on whether there is sufficient evidence to rebut this presumption.

(b) **Individual weighting approach.** Under this approach, the weightings given to the gaining of control, consideration and decision-making are a matter for professional judgment based on the individual circumstances of the combination. Preparers would identify which (if any) factors indicate an acquisition and which (if any) factors indicate an amalgamation. Where indicators of both an acquisition and an amalgamation are present, the weighting given to the respective factors by preparers using professional judgment would determine the classification.

BC36. The IPSASB noted that the rebuttable presumption approach provided greater clarity, and better satisfied the QC of comparability. The individual weighting approach was likely to be more subjective in practice. However, the IPSASB acknowledged that the individual weighting approach would enable practitioners to better reflect the economic substance of the combination, and might better meet the QCs of relevance and faithful representation.

BC37. Control was seen by most members as more important in determining the classification than the other factors, and the rebuttable presumption approach reflected this. Consequently, the IPSASB agreed to develop the rebuttable presumption approach.

BC38. In coming to this decision the IPSASB noted that an approach that considered other factors as supplementing control (which better satisfies the QCs of relevance and faithful representation at the expense of comparability) while at the same time incorporating a rebuttable presumption that one party to a combination gaining control of operations gives rise to an acquisition (which better satisfies the QC of comparability at the expense of relevance and faithful representation) is likely to produce an appropriate balance between the QCs.

BC39. The IPSASB also considered the possibility that, in rare circumstances, neither the consideration nor the decision-making indicators would be sufficient to rebut the presumption that a public sector combination was an acquisition even though this classification did not reflect the economic substance of the combination. The IPSASB agreed to require consideration of the economic substance of the combination when determining whether the presumption should be rebutted. To assist preparers in this determination, ED 60 also required, in these rare circumstances, an assessment as to which classification produces information that best satisfies the objectives of financial reporting and the QCs.

BC40. The IPSASB considered that the most common circumstances in which a public sector combination would be considered an acquisition are:

(a) One party to the combination gains control of an operation and pays consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement.

(b) One party to the combination gains control of an operation from outside the public sector without paying consideration to compensate those with an entitlement to the net assets of the transferred operations.

(c) One party to the combination gains control of an operation from outside the public sector by imposing the combination on the other party.

(d) One party to the combination gains control of an operation from a separate government.

The IPSASB noted that, except in exceptional cases, the classification approach adopted in ED 60 would result in such combinations being classified as acquisitions. This provided reassurance to the IPSASB that the approach adopted was appropriate.

Responses to ED 60

BC41. The IPSASB considered the responses to ED 60. The IPSASB noted that there was substantial support for the overall approach to classifying public sector combinations in the ED.

BC42. Respondents did, however, identify areas where they considered the approach could be improved. The main issues identified were:

(a) Having a rebuttable presumption that was expected to be rebutted significantly more frequently than not was confusing;

(b) The approach was seen as giving too much emphasis to control, with some stakeholders interpreting the ED as requiring the use of the acquisition method in most cases where one party to the combination gained control of operations; and

(c) In many jurisdictions, it will be easier to determine the economic substance of a public sector combination by reference to the indicators (consideration and decision making) than by reference to whether one party to the combination gained control of operations.

BC43. The IPSASB acknowledged these concerns. The IPSASB accepted that rebuttable presumptions are generally expected to be rebutted infrequently, and that the use of this term with an expectation that it would be frequently rebutted may be confusing for preparers. This confusion could result in a preparer classifying a public sector combination as an acquisition when this was not the IPSASB's intention.

BC44. The IPSASB considered that the potential confusion as to how the rebuttable presumption was to be interpreted might explain the concerns of some stakeholders that the acquisition method would be used inappropriately. The IPSASB did not intend that the approach in the ED would require the use of the acquisition method in most cases where one party to the combination gained control of operations. The IPSASB considered that acquisitions would arise in limited circumstances, as can be seen from the list in paragraph BC40 above.

BC45. The IPSASB accepted that, in many jurisdictions, the economic substance of a public sector combination could be more readily determined by reference to the indicators, in particular whether a combination occurred under common control. However, the IPSASB noted that this was not the case for all jurisdictions. The IPSASB noted that control remained a significant factor; in particular, an acquisition can only occur when a party to the combination gains control of one or more operations. The IPSASB also noted that the approach in ED 60 provided a suitable decision framework for ensuring all relevant factors were considered.

BC46. Consequently, the IPSASB agreed to reconsider the way the classification approach is expressed to address these concerns, without changing the substance of the approach. The rebuttable presumption and reference to control was intended to be the first step in the process of determining a classification based on the economic substance of the combination. In creating this first step, the IPSASB did not intend that, once it has been established that one party has gained control, control should be given greater weight than consideration and decision making in determining the economic substance of the combination. The IPSASB accepted that the reference in BC35(a) to the approach giving a strong weighting to the gaining of control could be misleading. Control remains important, as its absence eliminates the possibility of an acquisition, but its significance in determining the economic substance of a particular combination where one party has gained control is a matter of professional judgment. The IPSASB remains of the view that the classification approach in ED 60 was appropriate, and the changes introduced in this Standard are intended to provide greater clarity as to how the approach should be applied. These changes are not intended to produce different classifications from ED 60.

Comparison with IFRS 3

BC47. This Standard is not converged with IFRS 3. IFRS 3 considers all business combinations to be acquisitions, whereas this Standard provides for both amalgamations and acquisitions. The IPSASB considers this difference to be appropriate, for the following reasons:

(a) In developing IFRS 3, the IASB concluded that 'true mergers' or 'mergers of equals' in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. However, in the public sector, such combinations are common. Developing a Standard that did not address amalgamations would not meet the needs of the users of public sector GPFSs.

(b) IFRS 3 assumes that it is always possible to identify the acquirer, as the businesses to which IFRS 3 applies will always have owners. In the public sector, there may be no quantifiable ownership interests in a public sector entity, which can make it impossible to identify an acquirer. Developing a Standard that does not recognize this situation would not meet the needs of the users of public sector GPFSs.

Accounting for Amalgamations (paragraphs 15–57)

Reasons for Adopting the Modified Pooling of Interests Method of Accounting for Amalgamations

BC48. In developing the CP, the IPSASB identified three methods of accounting for public sector combinations that have either been applied in practice, or discussed. These are:

(a) The acquisition method;

(b) The pooling of interests method, including a possible modification to this method; and

(c) The fresh start method.

BC49. The acquisition method (which is applied by IFRS 3) requires that an acquirer is identified for all combinations. The IPSASB had already concluded that it may not be possible to identify an acquirer for all public sector combinations, and that any combination in which an acquirer could not be identified would be classified as an amalgamation. The IPSASB therefore concluded that the acquisition method of accounting would not be appropriate for amalgamations.

BC50. The pooling of interests method of accounting was previously used in IAS 22, *Business Combinations* (the predecessor standard to IFRS 3). It was intended for application to a combination in which an acquirer cannot be identified. The pooling of interests method of accounting was previously used by many jurisdictions as the basis for merger accounting or amalgamation accounting. It continues to be used by many entities when accounting for combinations under common control (which are outside the scope of IFRS 3).

BC51. The pooling of interests method accounts for the combining operations as though they were continuing as before, although now jointly owned and managed. The financial statement items of the combining operations for the period in which the combination occurs, and for any comparative periods disclosed, are included in the financial statements of the resulting entity as if they had been combined from the beginning of the earliest period presented. In other words, the recognition point is the beginning of the earliest period presented, and, consequently, comparative information is restated.

BC52. The IPSASB noted that some are of the view that the requirement to restate comparative information might be onerous and unnecessary. In the CP, the IPSASB consulted on a variation of the pooling of interests method of accounting, described as the modified pooling of interests method of accounting. Under the modified pooling of interests method, the resulting entity combines the items in the statement of financial position as at the date of the amalgamation.

BC53. The third method the IPSASB discussed in the CP was the fresh start method of accounting. In contrast to the pooling of interests method of accounting, the premise of the fresh start method is that the resulting entity is a new entity (irrespective of whether a new entity is formed) and therefore its history commences on that date. The modified pooling of interests method has a similar effect in practice.

BC54. The fresh start method requires recognition of all of the identifiable assets and liabilities of all the combining operations at fair value as at the date of the combination in the financial statements of the resulting entity. This includes recognizing identifiable assets and liabilities that were not previously recognized by the combining operations. In other words, the fresh start method uses the same recognition and measurement basis as the acquisition method, but applies it to all of the combining operations rather than just acquired operations.

BC55. In developing the CP, the IPSASB came to the conclusion that the pooling of interests method of accounting, the modified pooling of interests method of accounting and the fresh start method of accounting all provided a possible basis for accounting for amalgamations.

BC56. The IPSASB noted that the future cash flows and service potential of the resulting entity will generally be the same regardless of which method is used to account for the amalgamation. However, the presentation of the financial performance and financial position of the resulting entity differs significantly depending on the method applied. If preparers are given a free choice of method, this would reduce comparability between entities and over time.

BC57. Supporters of the pooling or modified pooling of interests method of accounting for amalgamations considered that these methods satisfy users' needs:

(a) For information for decision-making purposes; and

(b) To assess the accountability of the resulting entity for its use of resources.

This is because users of public sector entities' GPFSs use the information to assess how financial resources have been allocated and the financial condition of an entity. This information can be obtained by applying the pooling or modified pooling of interests methods of accounting.

BC58. These methods are seen as satisfying the QCs of relevance and faithful representation, because they reflect the amounts recognized in the financial statements of the combining operations before the amalgamation. The subsequent performance of the resulting entity, and its accountability for the management of those resources, can be assessed on the same basis as was used to assess accountability before the amalgamation.

BC59. The pooling or modified pooling of interests methods of accounting are seen as generally the least costly to apply, because they:

(a) Use the existing carrying amounts of the assets, liabilities, and net assets/equity of the combining operations; and

(b) Do not require identifying, measuring, and recognizing assets or liabilities not previously recognized before the amalgamation.

BC60. Supporters of the modified pooling of interests method of accounting consider it to be superior to the pooling of interests method because it portrays the amalgamation as it actually is. This is because it recognizes the assets and liabilities of the combining operations at the date of the amalgamation. Supporters consider this to be a faithful representation of the amalgamation.

BC61. Those who support the use of the modified pooling of interests method acknowledge that the history of the combining operations may help in assessing the performance of the resulting entity. In debating the merits of the different methods, the IPSASB acknowledged that adopting the modified pooling of interests method of accounting without addressing users' needs for historical information may not satisfy the objectives of financial reporting.

BC62. Others consider that the fresh start method of accounting is conceptually superior to both the pooling of interests method of accounting and its modified version, because the resulting entity is held accountable for the current value of the resources of the combining operations. It also provides more complete information of an amalgamation, because it recognizes the identifiable assets and liabilities of the combining operations, regardless of whether they were recognized prior to the amalgamation.

BC63. Supporters of the fresh start method of accounting consider that it satisfies users' needs:

(a) For information for decision-making purposes; and

(b) To assess the accountability of the resulting entity for its use of resources.

This is because it enables users to better assess the financial condition of the entity and how the financial resources have been allocated.

BC64. Supporters of the fresh start method of accounting consider that this method is, to a large extent, an extension of the use of fair value in the acquisition method of accounting. Consequently, they argue that if the acquisition method is adopted for acquisitions, there is no reason not to adopt similar accounting for amalgamations.

BC65. In developing the CP, the IPSASB came to the view that the modified pooling of interests method of accounting is the appropriate method to apply, because users' are able to assess the performance and accountability of the resulting entity without the entity having to remeasure its assets and liabilities. Furthermore, it recognizes the amalgamation on the date it takes place. The IPSASB noted that IPSASs permit revaluation to fair value subsequent to initial recognition if a resulting entity considers that this approach would provide more relevant information to users.

BC66. Respondents to the CP generally supported the IPSASB's view that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. The IPSASB reconsidered the methods in developing ED 60, and identified no reason to change its previously stated view. The IPSASB therefore agreed that the modified pooling of interests method of accounting should be adopted for amalgamations in ED 60. In coming to this decision, the IPSASB agreed that the modified pooling of interests method of accounting should include appropriate disclosures to ensure that the users of public sector entities' GPFSs had access to the historical information they need.

BC67. Respondents to ED 60 generally agreed that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. However, some respondents considered that the pooling of interests method of accounting provided better information, and only supported the modified pooling of interests method for cost/benefit reasons. These respondents considered that, in some circumstances, the benefits of providing prior period information would outweigh the cost of so doing. The IPSASB accepted this view, and agreed that resulting entities should be permitted, but not required, to present prior period information. The IPSASB decided that prior period information should not be restated, as doing so would require the use of a different recognition point, which would reduce comparability.

Exceptions to the Principle that Assets and Liabilities are Recognized and Measured at their Previous Carrying Amount

BC68. The modified pooling of interests method of accounting requires the resulting entity to recognize and measure the assets and liabilities of the combining operations at their previous carrying amounts, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The effects of all transactions between the combining operations, whether occurring before or after the amalgamation date, are eliminated in preparing the financial statements of the resulting entity.

BC69. The IPSASB considered the circumstances in which the application of these principles would not be appropriate. The IPSASB identified three circumstances in which an exception to the recognition and/or measurement principles would be appropriate:

(a) **Licenses and similar rights previously granted by one combining operation to another combining operation**. A license or similar right may have been granted by one combining operation to another combining operation and recognized as an intangible asset by the recipient. Applying the general principles would require this transaction to be eliminated. However, the IPSASB considered that, in granting the license or similar right, the recognition criteria for an intangible asset are met. Where internally generated intangible assets are not recognized, this is because of the problems in Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and in determining the cost of the asset reliably. Once a license or similar right has been granted to a recipient, this demonstrates that there is an identifiable asset that will generate future economic benefits or service potential. Similarly, the transaction will establish a cost for the asset. Consequently, the recognition criteria for an intangible asset are met. Because of this, the asset is not eliminated when combining operations that have granted and received the license or similar right are part of an amalgamation. The situation is similar to that where a tangible asset is sold by one combining operation to another combining operation. Eliminating the effect of the sale does not eliminate the tangible asset itself, as the asset was previously recognized by the seller. In the case of a license or similar right, eliminating the transaction does not eliminate the intangible asset, as the transaction provides sufficient evidence of the existence of the intangible asset, such that the grantor would itself recognize that intangible asset. The IPSASB noted that in some cases where a combining operation gains control of other operations, the right might be considered as a reacquired right. The IPSASB did not consider that this would warrant a different accounting treatment, and noted that reacquired rights are recognized as intangible assets under the acquisition method. For these reasons, the IPSASB concluded that the asset recognized in respect of a license or similar right previously granted by one combining operation to another should not be eliminated.

(b) **Income taxes**. In the public sector, amalgamations, especially those imposed by a higher level of government, may include tax forgiveness as part of the terms and conditions of the amalgamation. The IPSASB agreed that the resulting entity should recognize any tax items that exist following the amalgamation rather than those that existed prior to the amalgamation. Having considered comments by respondents to ED 60, the IPSASB agreed that there may be cases where any tax forgiveness arises subsequent to the amalgamation, rather than as part of the terms and conditions of the amalgamation. The IPSASB agreed to include provisions dealing with both cases in IPSAS 40.

(c) **Employee benefits**. The IPSASB noted that the assets and liabilities required to be recognized by IPSAS 39, *Employee Benefits*, in respect of a post-employment benefit plan following an amalgamation might differ from the combined carrying amounts of the combining operations' equivalent amounts. As an example, an amalgamation involves five combining operations who are the only participants in a multi-employer defined benefit plan. Prior to the amalgamation, the combining operations have insufficient information to determine each combining operation's proportionate share of the defined benefit obligation, plan assets, and cost associated with the plan. As a result, the combining operations account for the plan as if it is a defined contribution plan. Following the amalgamation, the resulting entity is the only participant in the plan, and is able to determine its defined benefit obligation, plan assets, and cost associated with the plan. It therefore accounts for the plan as a defined benefit plan from the date of the amalgamation. The IPSASB agreed that the resulting entity's opening statement of financial position should include the assets and liabilities measured in accordance with IPSAS 39.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

BC70. In developing ED 60, the IPSASB noted that a residual amount might arise as a result of an amalgamation. The IPSASB considered how this should be recognized and measured. The IPSASB agreed that the residual amount does not reflect the financial performance of the resulting entity, and concluded that the residual amount should be recognized in the resulting entity's opening statement of financial position.

BC71. The IPSASB considered the nature of the residual amount. The IPSASB considered that, for amalgamations not under common control, the residual amount represents the past financial performance of the combining operations not included in their transferred net assets/equity. The IPSASB agreed that the residual amount should be included in the resulting entity's opening net assets/equity where the amalgamation takes place not under common control.

BC72. The IPSASB considered that, for amalgamations under common control, the residual amount represents the financial consequences of decisions made by the controlling entity in setting or accepting the terms of the amalgamation. Consequently, the IPSASB agreed that the residual amount should be treated as an ownership contribution or ownership distribution where the amalgamation takes place under common control.

BC73. The IPSASB considered the items that should be included in the residual amount. The IPSASB noted that the modified pooling of interests method of accounting usually recognizes an amalgamation as giving rise to, in substance, a new entity on the date the amalgamation takes place. As the new entity would not have generated other components of net assets/equity such as accumulated surplus or deficit, or revaluation surplus, all items within net assets/equity would be included as part of the residual amount.

BC74. The IPSASB considered that this approach best reflects the conceptual basis of an amalgamation and agreed that all items within net assets/equity at the amalgamation date should be considered to be part of the residual amount. In coming to this view, the IPSASB accepted that this approach may have consequences for some entities. For example, because the residual amount would include any previously recognized revaluation surplus, any future revaluation decreases are more likely to be recognized in surplus or deficit. This is because the previously recognized revaluation surplus would no longer be available to absorb future revaluation decreases.

BC75. Another consequence relates to amalgamations that take place under common control. The resulting entity would recognize a residual amount but the controlling entity would continue to recognize the previous components of net assets/equity in its consolidated financial statements, giving rise to ongoing consolidation adjustments. The IPSASB did not consider that these consequences outweighed the benefits of adopting the conceptual approach.

Responses to ED 60

BC76. Although the majority of respondents to ED 60 supported the IPSASB's approach to the residual amount, a significant minority did not. The main reasons respondents gave for not supporting the proposed treatment of the residual amount were as follows:

(a) Retaining existing reserves better represents the combination, is more transparent and better meets users' needs;

(b) The proposals will result in reliable information on the revaluation reserve being discarded;

(c) For amalgamations under common control, the combining entities may effectively be continuing as one entity rather than as two or more separate entities, as opposed to being a new entity;

(d) Reporting subsequent revaluation losses as an expense risks misrepresenting financial performance in future years;

(e) The proposals will produce ongoing consolidation adjustments where the amalgamation takes place under common control, and the need to prepare these adjustments outweighed the benefits of recognizing a single residual amount; and

(f) The proposals will impact on a wide range of reserves, including those relating to employee benefits, hedging and reserves restricted by legislation, which would be inconsistent with ED 60's requirement that the existing classifications and designations are maintained.

BC77. The IPSASB was persuaded by some of the reasons provided by respondents. In particular the IPSASB acknowledged that the proposals in ED 60 might be internally inconsistent.

BC78. The IPSASB therefore reconsidered the proposal to require all amounts recognized in net assets/equity to be recognized in the residual amount.

BC79. The IPSASB concluded that the most appropriate presentation of net assets/equity would depend on the circumstances of the amalgamation. In an amalgamation not under common control, and where there were no reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity could provide faithfully representative information. In an amalgamation under common control, and with reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity is unlikely to provide faithfully representative information. In these circumstances, presenting separate components of net assets/equity will provide more relevant and useful information.

BC80. Consequently, the IPSASB decided not to specify which components of net assets/equity should be presented, as preparers will be in the best position to judge the most appropriate treatment. The IPSASB agreed to amend the requirements accordingly.

Measurement Period

BC81. IFRS 3 permits acquirers a period of one year after the acquisition date to complete the accounting for the acquisition. This is to allow the acquirer sufficient time to obtain information to determine the fair value of an acquired operation's assets and liabilities.

BC82. The IPSASB 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.

Combining Operations that Have Not Previously Adopted Accrual Basis IPSASs

BC83. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more combining operations had not previously adopted accrual basis IPSASs. For example, one public sector entity that has previously applied accrual basis IPSASs may be amalgamated with a second public sector entity that has previously applied an alternative accrual basis of accounting. In such circumstances, recognizing and measuring the second public sector entity's assets and liabilities at their carrying amount may not be consistent with the requirements of accrual basis IPSASs.

BC84. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 27 of IPSAS 40 requires the resulting entity to adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies. The IPSASB considered this requirement to be sufficient to address most circumstances where one or more combining operations had not previously adopted accrual basis IPSASs.

BC85. The IPSASB came to the view that where adjusting the carrying amounts to conform to the resulting entity's accounting policies was insufficient to achieve compliance with accrual basis IPSASs, the resulting entity would be a first-time adopter of accrual basis IPSASs. This could occur where one or more combining operations had previously adopted the cash basis of accounting and had, therefore, not previously recognized certain assets and liabilities. In these circumstances, the resulting entity would apply IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* in preparing its first post-combination financial statements.

Accounting for Acquisitions (Paragraphs 58–125)

Reasons for Adopting the Acquisition Method of Accounting for Acquisitions

BC86. In developing the CP, the IPSASB did not reach a conclusion as to "whether the use of fair value as the measurement basis, is appropriate for some or all acquisitions in the public sector. This is because the most prevalent types of acquisition occur where operations are acquired for the achievement of objectives relating to the delivery of goods and/or services, instead of generating economic benefits to return to equity holders. Moreover, many acquisitions do not include the transfer of consideration. Some consider that these types of acquisitions are different in nature from business combinations as identified in IFRS 3, because the concept of acquiring an operation directly in exchange for the transfer of consideration is missing." Respondents to the CP generally supported the use of fair value for acquisitions in which consideration was transferred. For acquisitions in which no consideration was transferred, there was broadly equal support for fair value measurement and measurement at carrying amount.

BC87. The arguments developed in the CP reflected the classification approach in the CP. In the CP, the IPSASB proposed that the gaining of control was the sole definitive criterion for distinguishing an amalgamation from an acquisition. The IPSASB has subsequently decided to supplement the gaining of control with two other factors, consideration and decision-making. The IPSASB considers that this will result in fewer public sector combinations being classified as acquisitions than under the approach in the CP. Those public sector combinations that are classified as acquisitions will be similar in nature to the business combinations addressed by IFRS 3.

BC88. Having regard to the revised classification approach that it had agreed to adopt, the IPSASB reconsidered which accounting method would be appropriate for acquisitions. The IPSASB concluded that the acquisition method was appropriate, and agreed to adopt the acquisition method as set out in IFRS 3 as the accounting method for acquisitions in this Standard. This approach was supported by respondents to ED 60.

Differences to the Accounting Treatments in IFRS 3

BC89. IFRS 3 includes accounting treatments that are based on other IFRS Standards for which there is no equivalent IPSAS, for example income taxes and share-based payment. The IPSASB agreed not to include the detailed requirements specified in IFRS 3, but to include references to the relevant international or national accounting standard dealing with the issue.

BC90. The IPSASB considered whether any additional guidance to that provided by IFRS 3 was required. The IPSASB noted that acquisitions in the public sector may include assets and liabilities arising from non-exchange transactions that are not addressed in IFRS 3. Consequently, the IPSASB agreed to include additional guidance on the following non-exchange items:

(a) Tax forgiveness; and

(b) The subsequent measurement of transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that may change as a result of an acquisition.

BC91. The IPSASB considered comments from respondents to ED 60 regarding the acquisition method. As a result, the IPSASB agreed to make minor changes to the requirements:

The tax forgiveness requirements have been amended to allow for those cases where tax forgiveness occurs subsequent to the acquisition as well as where it forms part of the terms of the acquisition.

The IPSASB considered whether any additional exemptions to the recognition and measurement principles or any additional guidance on the acquisition method were required. The IPSASB concluded that no further provisions were necessary, as the Board considered that the provisions in this Standard or in other IPSASs were already sufficiently clear.

Acquired Operations that Have Not Previously Adopted Accrual Basis IPSASs

BC92. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more acquired operations had not previously adopted accrual basis IPSASs. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 64 of IPSAS 40 requires an acquirer to recognize the identifiable assets acquired, the liabilities assumed and any non-controlling interest in an acquired operation. Paragraph 72 of the Standard requires the acquirer to measure the assets and liabilities acquired at their acquisition-date fair values. Consequently, the acquirer will measure all assets and liabilities in accordance with accrual basis IPSASs, irrespective of the accounting basis previously adopted by an acquired operation.

Fair Value Cannot be Determined

BC93. Respondents to ED 60 commented that, in exceptional circumstances, it may be impracticable for an acquirer to determine the fair value of an item and suggested that the use of the item's previous carrying amount may be an appropriate alternative. The IPSASB considered this suggestion but concluded that using carrying amount may not be appropriate in all instances, particularly if the acquired operation does not apply accrual based IPSASs. The IPSASB agreed that entities should apply the existing requirements in IPSASs. In particular, the IPSASB noted that, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. IPSAS 3 provides additional guidance. In such cases, the acquirer would measure the item as of the acquisition date in a manner that is consistent with other IPSASs and the acquirer's accounting policies, and make the disclosures required by other IPSASs. The IPSASB considered that it would be appropriate to measure the item at its previous carrying amount only where that carrying amount is consistent with other IPSASs and the acquirer's accounting policies.

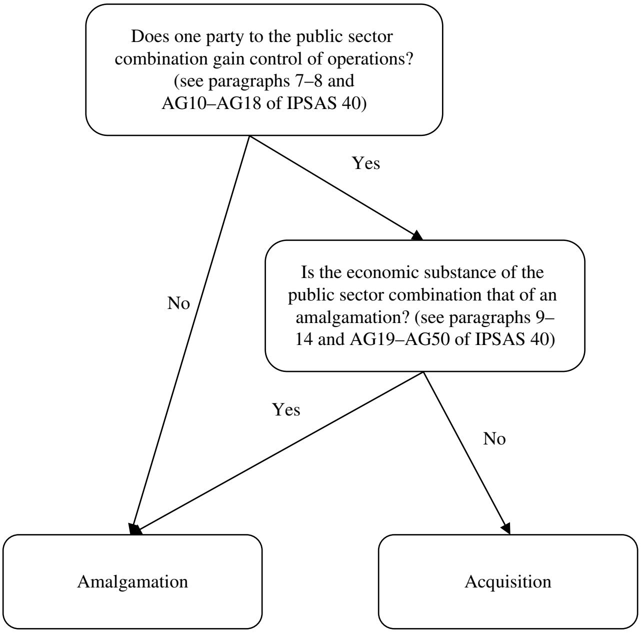
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 40.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 40.

Classification of Public Sector Combinations

IG2. The diagram below summarizes the process established by IPSAS 40 for classifying public sector combinations.



Illustrative Examples

These examples accompany, but are not part of, IPSAS 40.

Classification of Public Sector Combinations

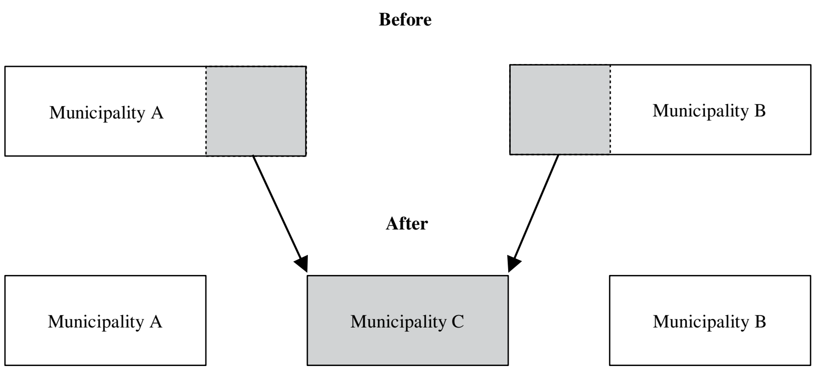
Illustrating the Consequences of Applying Paragraphs 7–14 and AG10–AG50 of IPSAS 40

IE1. The following scenarios illustrate the process for classifying public sector combinations. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 40.

IE2. Each scenario is illustrated by a diagram. Where a public sector combination involves operations which form part of an economic entity, but not the whole economic entity, the operations that are involved in the combination, and the entity that is formed by the combination, are shaded in the diagram. Where more than one reporting entity is included in an economic entity, the boundary of the economic entity is shown by a dotted line.

Scenario 1: Reorganization of Local Government by Rearranging Territorial Boundaries

IE3. The following diagram illustrates the creation of a new municipality by combining some operations from two existing municipalities.



IE4. In this scenario, the territorial boundaries of two existing municipalities, Municipality A and Municipality B, are redrawn by Parliament through legislation; neither Parliament nor Central Government controls Municipality A or Municipality B. Responsibility for part of each municipality's former territory is transferred to a new municipality, Municipality C. Operations in respect of the transferred territory are combined to form Municipality C. A public sector combination occurs.

IE5. Municipality A and Municipality B remain otherwise unchanged and retain their governing bodies. A new governing body (unrelated to the governing bodies of Municipality A and Municipality B) is elected for Municipality C to manage the operations that are transferred from the other municipalities.

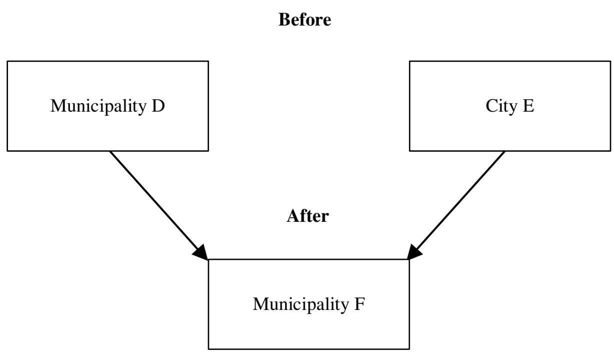
IE6. The creation of Municipality C is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE7. Municipality C has a newly elected governing body, unrelated to the governing bodies of Municipality A and Municipality B. Neither Municipality A nor Municipality B has power over the Municipality C. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality C.

IE8. Neither Municipality A nor Municipality B have gained control over Municipality C as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Reorganization of Local Government by Combining Municipalities into a New Legal Entity

IE9. The following diagram illustrates the creation of a new municipality by combining all of the operations of two existing municipalities into a new legal entity.



IE10. In this scenario, a public sector combination occurs in which Municipality F is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of Municipality D and City E. Prior to the combination, Municipality D and City E are not under common control. The combination is imposed by the provincial government (a third party) through legislation. The provincial government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE11. The legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. Municipality D and City E have no role in determining the terms of the combination. After the combination, Municipality D and City E cease to exist.

IE12. The creation of Municipality F is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE13. Municipality F has a newly formed governing body, unrelated to the governing bodies of Municipality D and City E. Neither Municipality D nor City E has power over Municipality F. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality F.

IE14. Neither Municipality D nor City E have gained control over Municipality F as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Variation

IE15. In scenario 2, the legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. In this variation, the legislation that creates Municipality F provides for the governing body of Municipality D to become the governing body of Municipality F.

IE16. This suggests that as part of the public sector combination that creates Municipality F, Municipality D is gaining control of the operations of City E. However, the assessment as to whether Municipality D is gaining control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Municipality F considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40.

IE17. In this variation, it is assumed that the legislation that provides for the governing body of Municipality D to become the governing body of Municipality F results in Municipality D gaining:

(a) Power over the operations of City E;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE18. Municipality F concludes that, as a result of the public sector combination, Municipality D has gained control of City E. Municipality F considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE19. In considering the economic substance of the public sector combination, Municipality F notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality D and City E. This is consistent with both an amalgamation and an acquisition. Municipality F also notes that Municipality D obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

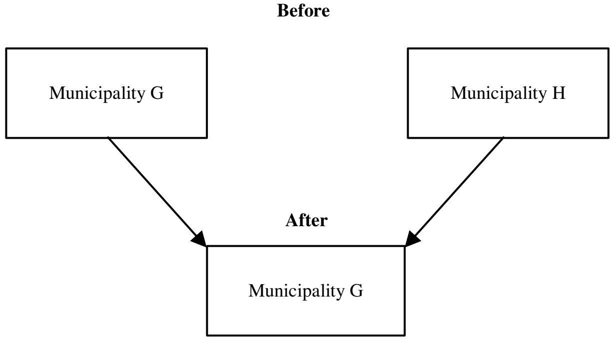
IE20. In considering the indicators relating to consideration, Municipality F notes that the public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of City E (i.e., there are no former owners of City E with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE21. In considering the indicators relating to the decision-making process, Municipality F notes that the public sector combination was imposed by the provincial government (a third party) and that Municipality D and City E had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE22. Taking these factors together, Municipality F considers that the public sector combination should be classified as an amalgamation. In coming to this decision, Municipality F considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Reorganization of Local Government by Combining Municipalities into an Existing Legal Entity

IE23. The following diagram illustrates the combining of all of the operations of two existing municipalities into an existing legal entity.



IE24. In this scenario, a public sector combination occurs in which the operations of Municipality G and Municipality H (and their related assets, liabilities and components of net assets/equity) are combined into the legal entity of Municipality G. Prior to the combination, Municipality G and Municipality H are not under common control. The combination is imposed by Central Government (a third party) through legislation. Central Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE25. The legislation that effects the combination provides for the governing body of Municipality G to continue as the governing body of the combined entity. Municipality G and Municipality H have no role in determining the terms of the combination. After the public sector combination, Municipality H ceases to exist.

IE26. These facts suggest that as part of the public sector combination, Municipality G is gaining control of the operations of Municipality H. However, the assessment as to whether Municipality G is gaining control is based on the substance of the combination, not its legal form. Municipality G considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40 in determining whether to classify the combination as an amalgamation or an acquisition.

IE27. In this scenario, it is assumed that the legislation that provides for the governing body of Municipality G to continue as the governing body of combined entity results in Municipality G gaining:

(a) Power over the operations of Municipality H;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE28. Municipality G concludes that, as a result of the public sector combination, it has gained control of Municipality H. Municipality G considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE29. In considering the economic substance of the public sector combination, Municipality G notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality G and Municipality H. This is consistent with both an amalgamation and an acquisition. Municipality G also notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

IE30. In considering the indicators relating to consideration, Municipality G notes that the public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of Municipality H (i.e., there are no former owners of Municipality H with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE31. In considering the indicators relating to the decision-making process, Municipality G notes that the public sector combination was imposed by Central Government (a third party) and that Municipality G and Municipality H had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE32. Taking these factors together, Municipality G considers that the public sector combination should be classified as an amalgamation. In coming to this decision, Municipality G considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Variation

IE33. In scenario 3, the legislation provides for the governing body of Municipality G to become the governing body of the combined entity. In this variation, the legislation provides for a new governing body to be formed that has no links to Municipality G or Municipality H.

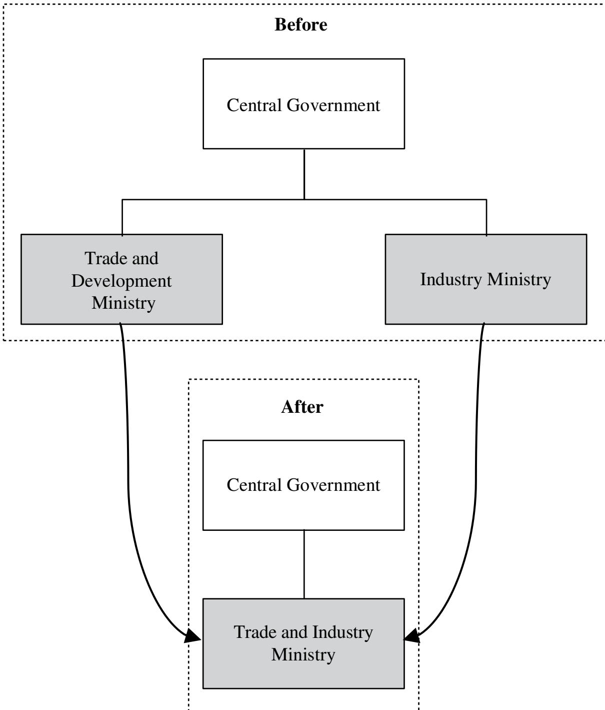
IE34. In determining whether this public sector combination should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE35. Despite its legal form continuing, Municipality G has a newly formed governing body, unrelated to its previous governing body or that of Municipality H. Consequently, the previous Municipality G does not gain power over Municipality H. Neither does it have exposure, or rights, to variable benefits from any involvement with Municipality H.

IE36. Municipality G has not gained control over Municipality H as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 4: Restructuring of Central Government Ministries

IE37. The following diagram illustrates the reorganization of Central Government ministries by combining the Trade and Development Ministry and the Industry Ministry into the newly formed Trade and Industry Ministry.



IE38. In this scenario, a public sector combination occurs in which the Trade and Industry Ministry is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of the Trade and Development Ministry and the Industry Ministry. All the ministries, both prior to and after the combination, are controlled by Central Government. The combination is imposed by Central Government using this control. The Trade and Development Ministry and the Industry Ministry have no role in determining the terms of the combination.

IE39. In effecting the combination, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. After the combination, the Trade and Development Ministry and the Industry Ministry cease to exist.

IE40. As Central Government controls the same operations both before and after the public sector combination, Central Government does not report a combination in its consolidated financial statements. The combination is reported by the Trade and Industry Ministry.

IE41. The creation of the Trade and Industry Ministry is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE42. Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. This suggests that as part of the public sector combination that creates the new Trade and Industry Ministry, the Industry Ministry is gaining control of the operations of the Trade and Development Ministry. However, the assessment as to whether the Industry Ministry is gaining control is based on the substance of the combination, not its form. In determining whether the combination should be classified as an amalgamation or an acquisition, the Trade and Industry Ministry considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40.

IE43. In this scenario, it is assumed that the decision of Central Government to give responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry results in the Industry Ministry gaining:

(a) Power over the operations of the Trade and Development Ministry;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE44. The Trade and Industry Ministry concludes that, as a result of the public sector combination, the Industry Ministry has gained control of the Trade and Development Ministry. The Trade and Industry Ministry considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE45. In considering the economic substance of the public sector combination, the Trade and Industry Ministry notes that the combination does not result in a controlling entity/controlled entity relationship between the Trade and Development Ministry and the Industry Ministry. This is consistent with both an amalgamation and an acquisition. The Trade and Development Ministry also notes that the Industry Ministry obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition.

IE46. In considering the indicators relating to consideration, the Trade and Industry Ministry notes that the public sector combination does not include the payment of consideration because the combination took place under common control, and Central Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE47. In considering the indicators relating to the decision-making process, the Trade and Industry Ministry notes that the public sector combination takes place under common control. The combination was directed by Central Government and the Trade and Development Ministry and the Industry Ministry had no role in determining the terms of the combination. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Central Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE48. Taking these factors together, the Trade and Industry Ministry considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the fact that the public sector combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 4: Variation

IE49. In scenario 4, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. In this variation, Central Government appoints a new Minister and governing body.

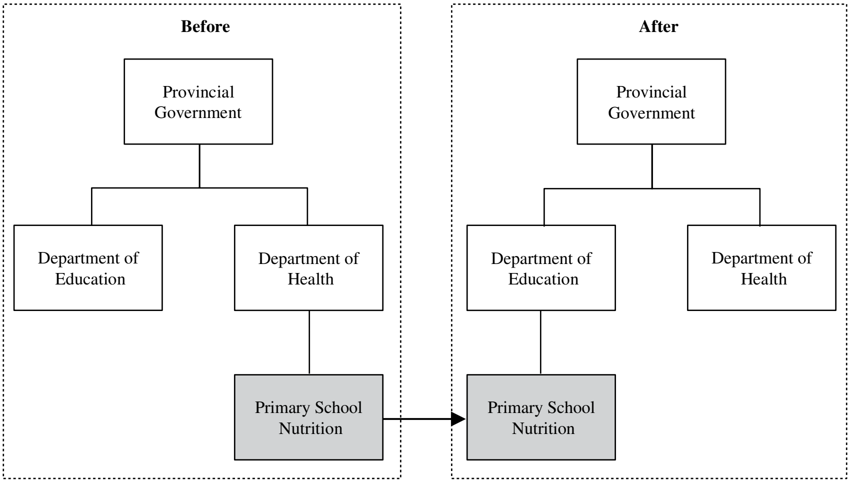
IE50. The creation of the Trade and Industry Ministry is a public sector combination under common control. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE51. The Trade and Industry Ministry has a new Minister and a newly formed governing body, unrelated to the governing bodies of the Trade and Development Ministry and the Industry Ministry. Neither the Trade and Development Ministry or the Industry Ministry has gained power over the operations of the other ministry. Neither do they have exposure, or rights, to variable benefits from any involvement with the operations of the other ministry.

IE52. Neither of the Trade and Development Ministry nor the Industry Ministry has gained control over the Trade and Industry Ministry as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 5: Transfer of Operations Under Common Control

IE53. The following diagram illustrates the transfer of operations between two public sector entities that are under common control.



IE54. In this scenario, a public sector combination occurs in which the Primary School Nutrition operation is transferred from the Provincial Government's Department of Health to its Department of Education. Both departments are controlled by the Provincial Government prior to and after the combination.

IE55. As the Provincial Government controls the same operations both before and after the public sector combination, the Provincial Government does not report a combination in its consolidated financial statements. The combination is reported by the Department of Education.

IE56. The transfer of the Primary School Nutrition operation is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Education considers is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE57. In this scenario, the Department of Education gains:

(a) Power over the Primary School Nutrition operation;

(b) Exposure, or rights, to variable benefits from its involvement with that operation; and

(c) The ability to use its power over that operation to affect the nature or amount of the benefits from its involvement with that operation.

IE58. The Department of Education concludes that, as a result of the public sector combination, it has gained control of the Primary School Nutrition operation. The Department of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE59. In considering the economic substance of the public sector combination, the Department of Education notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction; this may suggest that the economic substance of the combination is that of an acquisition.

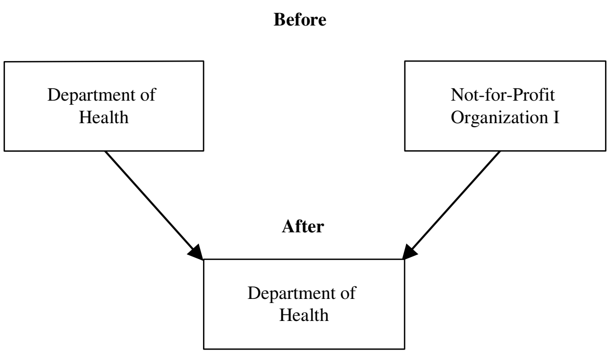
IE60. In considering the indicators relating to consideration, the Department of Education notes that the public sector combination does not include the payment of consideration because the combination took place under common control, and the Provincial Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE61. In considering the indicators relating to the decision-making process, the Department of Education notes that the public sector combination takes place under common control. The combination was directed by the Provincial Government. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Provincial Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE62. Taking these factors together, the Department of Education considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the fact that the public sector combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 6: Combination of a Public Sector Entity with a Not-For-Profit Organization

IE63. The following diagram illustrates the combination of a public sector entity with a not-for-profit organization providing similar services.



IE64. In this scenario, a public sector combination occurs in which Not-for-Profit Organization I, a charity which provides paramedic services, voluntarily agrees to combine with the Department of Health in order to improve the delivery of services to the public. The operations of Not-for-Profit Organization I are integrated with similar operations provided by the Department of Health. Prior to the combination, the Department of Health has provided funding for Not-for-Profit Organization I. The Department of Health meets the cost of transferring the title to the assets and liabilities of Not-for-Profit Organization I incurred by the trustees of the charity.

IE65. The combination of the Department of Health and Not-for-Profit Organization I is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Health considers is whether it has gained control of operations as a result of the combination.

IE66. In this scenario, the Department of Health gains:

(a) Power over Not-for-Profit Organization I and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE67. The Department of Health concludes that, as a result of the public sector combination, it has gained control of Not-for-Profit Organization I. The Department of Health considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE68. In considering the economic substance of the public sector combination, the Department of Health notes that the combination does not result in a controlling entity/controlled entity relationship between the Department and Not-for-Profit Organization I. This is consistent with both an amalgamation and an acquisition.

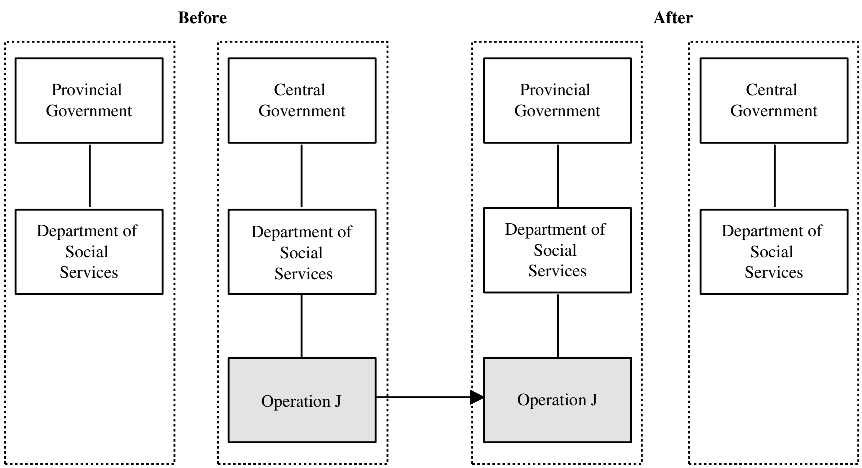
IE69. In considering the indicators relating to consideration, the Department of Health notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Although the Department of Health makes a payment to the trustees, this is to compensate them for costs incurred in effecting the combination, not to compensate them for giving up their entitlement to the net assets of Not-for-Profit Organization I. Although Not-for-Profit Organization I has a Board of Trustees, these individuals are not entitled to the net assets of the operation. This means there is no party with an entitlement to the net assets of Not-for-Profit Organization I (i.e., there are no former owners of Not-for-Profit Organization I with quantifiable ownership interests).This suggests that the economic substance of the combination is that of an amalgamation. In this scenario, this is confirmed by the fact that the purpose of the combination is to improve the delivery of services to the public.

IE70. In considering the indicators relating to the decision-making process, the Department of Health notes that the public sector combination was a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE71. Taking these factors together, the Department of Health considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination. In this scenario, this view is reinforced by the fact that that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public.

Scenario 7: Transfer of an Operation Between Levels of Government

IE72. The following diagram illustrates the transfer of an operation between levels of government.



IE73. In this scenario, Central Government adopts a policy of devolving responsibility for some social services to the Provincial Government. Consequently, it proposes transferring Operation J, which provides residential care services,

from Central Government's Department of Social Services to the Provincial Government's Department of Social Services. The Provincial Government supports the policy and agrees to accept Operation J. Operation J has net assets of CU1,000[2]. There is no transfer of consideration by the Provincial Government to the Central Government. However, the transfer agreement imposes an obligation on the Provincial Government to continue to provide the residential care services for a minimum of 10 years. Operation J does not recover all its costs from charges; the Provincial Government therefore assumes the responsibility for providing resources to meet the shortfall. Following the transfer, the Provincial Government operates Operation J as a stand-alone entity (i.e., there is a controlling entity/controlled entity relationship between the Provincial Government and Operation J), although it plans to integrate the operation with its other operations at a later date, which would remove the controlling entity/controlled entity relationship.

IE74. The transfer of Operation J is a public sector combination that will need to be reported in both the Provincial Government's financial statements and those of the Provincial Government's Department of Social Services. As the analysis required will be the same for both entities, this example uses the term Provincial Government to refer to both entities.

IE75. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Provincial Government considers is whether it has gained control of operations as a result of the combination.

IE76. In this scenario, the Provincial Government gains:

(a) Power over Operation J;

(b) Exposure, or rights, to variable benefits from its involvement with Operation J; and

(c) The ability to use its power over Operation J to affect the nature or amount of the benefits from its involvement with the operation.

IE77. The Provincial Government concludes that, as a result of the public sector combination, it has gained control of Operation J. The Provincial Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE78. In considering the economic substance of the public sector combination, the Provincial Government notes that the combination results in a controlling entity/controlled entity relationship between the Provincial Government and Operation J. This is inconsistent with the economic substance of an amalgamation.

[2] In these examples monetary amounts are denominated in 'currency units (CU)'

IE79. In considering the indicators relating to consideration, the Provincial Government notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the transfer agreement requires the Provincial Government to continue to provide the services. As Operation J does not recover all its costs from charges, the Provincial Government will need to provide the necessary resources to cover the shortfall. The Provincial Government considers that the cost of providing services for the agreed 10 year period is likely to be approximately equal to the value of the net assets received. It therefore considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. Although no consideration is transferred, this reflects the fair value of the combination. The Provincial Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE80. In considering the indicators relating to the decision-making process, the Provincial Government notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE81. Taking these factors together, the Provincial Government concludes that there is no evidence that economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 7: Variation

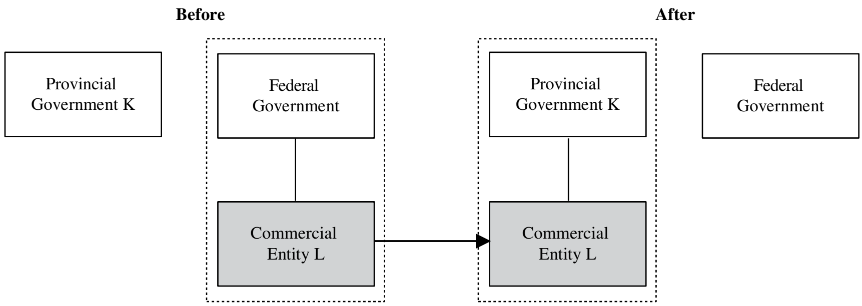
IE82. In scenario 7, the Provincial Government considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. This is the reason that no consideration is paid. In this variation, Operation J is assumed to cover its costs from charges. Consequently, a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be greater than zero.

IE83. In these circumstances, the fact that the combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation may provide evidence that the economic substance of the combination is that of an amalgamation.

IE84. In determining the classification of the public sector combination, the Provincial Government considers which factor or factors are the most significant. The Provincial Government considers the fact that it has gained control of Operation J and the fact that the combination does not involve the integration of its operations and those of Operation J to be the most significant factors in determining the economic substance of the combination. This suggests that the combination should be classified as an acquisition. The indicators relating to the decision-making process support this classification; only the indicators relating to consideration suggest that the economic substance of the combination may be an amalgamation. The Provincial Government therefore classifies the combination as an acquisition.

Scenario 8: Transfer of a Commercial Entity between Levels of Government

IE85. The following diagram illustrates the transfer of a commercial entity between levels of government.



IE86. In this scenario, the Federal Government agrees to transfer Commercial Entity L to Provincial Government K. Provincial Government K pays consideration to the Federal Government in respect of the transfer. Following the combination, Provincial Government K operates Commercial Entity L as an arms-length, stand-alone entity.

IE87. The transfer of Commercial Entity L is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government K considers is whether it has gained control of operations as a result of the combination.

IE88. In this scenario, Provincial Government K gains:

(a) Power over Commercial Entity L and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE89. Provincial Government K concludes that, as a result of the public sector combination, it has gained control of Commercial Entity L. Provincial Government K considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE90. In considering the economic substance of the public sector combination, Provincial Government K notes that the combination results in a controlling entity/controlled entity relationship between the Provincial Government and Commercial Entity L. This is inconsistent with the economic substance of an amalgamation. Provincial Government K also notes that the combination has commercial substance, which is suggestive of an acquisition.

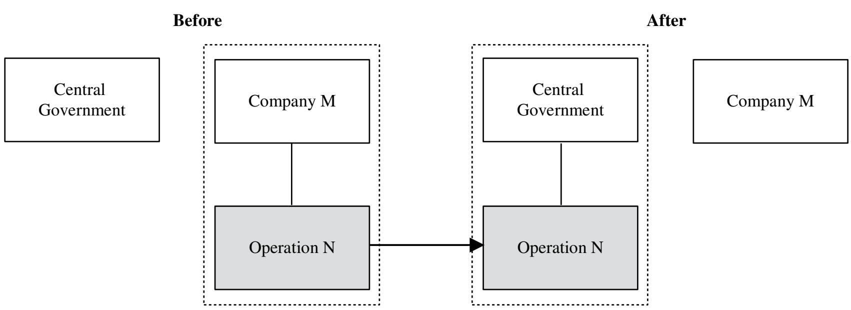
IE91. In considering the indicators relating to consideration, Provincial Government K notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Provincial Government K concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE92. In considering the indicators relating to the decision-making process, Provincial Government K notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE93. Taking these factors together, Provincial Government K concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 9: Purchase of a Private Sector Operation

IE94. The following diagram illustrates the purchase of a private sector operation by a public sector entity.



IE95. In this scenario, Central Government purchases Operation N from Company M. Central Government pays the market value of Operation N, and Company M acts voluntarily. Following the purchase, Operation N is managed as an arms-length, stand-alone entity.

IE96. The purchase of Operation N is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.

IE97. In this scenario, Central Government gains:

(a) Power over Operation N;

(b) Exposure, or rights, to variable benefits from its involvement with Operation N; and

(c) The ability to use its power over Operation N to affect the nature or amount of the benefits from its involvement with that operation.

IE98. Central Government concludes that, as a result of the public sector combination, it has gained control of Operation N. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE99. In considering the economic substance of the public sector combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Operation N. This is inconsistent with the economic substance of an amalgamation. Central Government also notes that the combination has commercial substance, which is suggestive of an acquisition.

IE100. In considering the indicators relating to consideration, Central Government notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Central Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE101. In considering the indicators relating to the decision-making process, Central Government notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE102. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 9: Variation

IE103. In scenario 9, Company M enters into the transaction voluntarily. In this variation, Central Government nationalizes Operation N through a compulsory purchase. The purchase is still effected at the market value of Operation N.

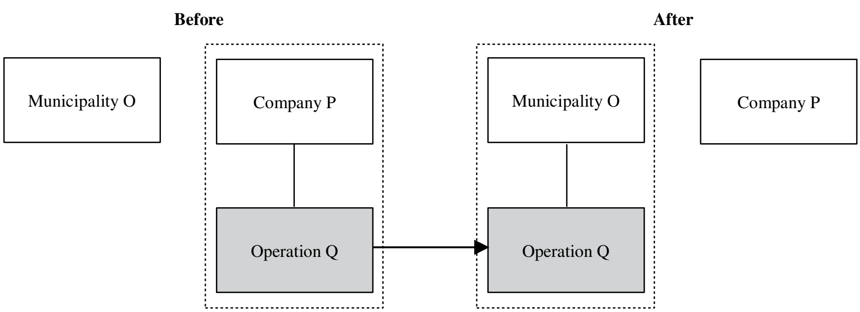
IE104. The change from a voluntary transaction to a compulsory purchase does not affect the assessments of control or the indicators related to consideration.

IE105. In considering the indicators relating to the decision-making process, Central Government notes that Company M does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the public sector combination on Company M provides evidence that the economic substance of the combination is that of an acquisition.

IE106. Consequently, Central Government classifies the public sector combination as an acquisition.

Scenario 10: Bargain Purchase

IE107. The following diagram illustrates a bargain purchase by a public sector entity.



IE108. In this scenario, Municipality O purchases Operation Q from Company P in a bargain purchase. Company P is seeking to sell Operation Q quickly to release cash for its other operations, and is willing to accept a price below the market value of Operation Q for an early sale. In entering into the bargain purchase, Company P acts voluntarily. Following the purchase, Operation Q is managed as an arms-length, stand-alone entity by Municipality O.

IE109. The bargain purchase of Operation Q is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Municipality O considers is whether it has gained control of operations as a result of the combination.

IE110. In this scenario, Municipality O gains:

(a) Power over Operation Q;

(b) Exposure, or rights, to variable benefits from its involvement with Operation Q; and

(c) The ability to use its power over Operation Q to affect the nature or amount of the benefits from its involvement with that operation.

IE111. Municipality O concludes that, as a result of the public sector combination, it has gained control of Operation Q. Municipality O considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE112. In considering the economic substance of the public sector combination, Municipality O notes that the combination results in a controlling entity/controlled entity relationship between Municipality O and Operation Q. This is inconsistent with the economic substance of an amalgamation. Municipality O also notes that the combination has commercial substance (even though the price paid was below the market price of Operation Q), which is suggestive of an acquisition.

IE113. In considering the indicators relating to consideration, Municipality O notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation, even though that price was below market value. Company P voluntarily accepted a lower price for a quick sale, and the purpose of the consideration paid was to provide Company P with the level of compensation for giving up its entitlement to the net assets of Operation Q that it was willing to accept. Municipality O concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE114. In considering the indicators relating to the decision-making process, Municipality O notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE115. Taking these factors together, Municipality O concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 10: Variation

IE116. In scenario 10, Company P enters into the transaction voluntarily. In this variation, Municipality O seizes Operation Q through a compulsory purchase. The purchase is still effected at a price below the market value of Operation

Q. Company P would not have sold Operation Q for a price below market value voluntarily.

IE117. The change from a voluntary transaction to a compulsory purchase does not affect the assessment of control.

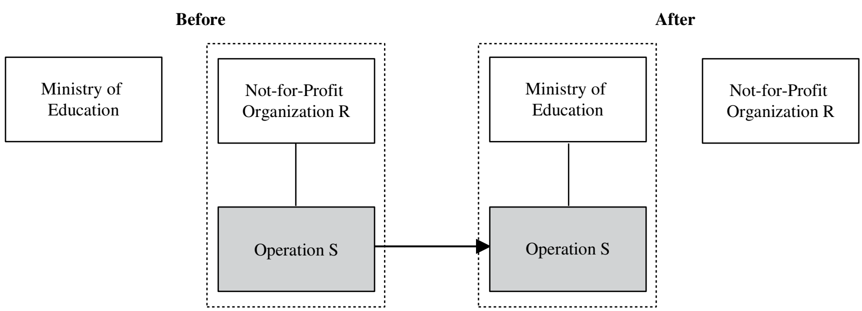
IE118. In considering the indicators relating to consideration, Municipality O notes that the public sector combination includes consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the level of compensation is less than Company P would have accepted voluntarily. Consequently, these indicators provide only weak evidence that the economic substance of the combination is that of an acquisition, and greater reliance is placed on other factors.

IE119. In considering the indicators relating to the decision-making process, Municipality O notes that Company P does not act voluntarily. The fact that Municipality O (a party to the combination) is able to impose the public sector combination on Company P provides evidence that the economic substance of the combination is that of an acquisition.

IE120. Taking all the factors into account, Municipality O classifies the public sector combination as an acquisition.

Scenario 11: Donated Operations

IE121. The following diagram illustrates the receipt of a donated operation by a public sector entity.



IE122. In this scenario, Not-for-Profit Organization R, a charity providing education services, voluntarily transfers Operation S, a school, to the Ministry of Education at no cost. Not-for-Profit Organization R does this because it considers that this will result in improved services to the public, and enable it to meet its objectives.

IE123. The donation of Operation S is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Ministry of Education considers is whether it has gained control of operations as a result of the combination.

IE124. In this scenario, the Ministry of Education gains:

(a) Power over Operation S;

(b) Exposure, or rights, to variable benefits from its involvement with Operation S; and

(c) The ability to use its power over Operation S to affect the nature or amount of the benefits from its involvement with that operation.

IE125. The Ministry of Education concludes that, as a result of the public sector combination, it has gained control of Operation S. The Ministry of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE126. In considering the economic substance of the public sector combination, the Ministry of Education notes that the combination has commercial substance (even though no price was paid for Operation S), which is suggestive of an acquisition.

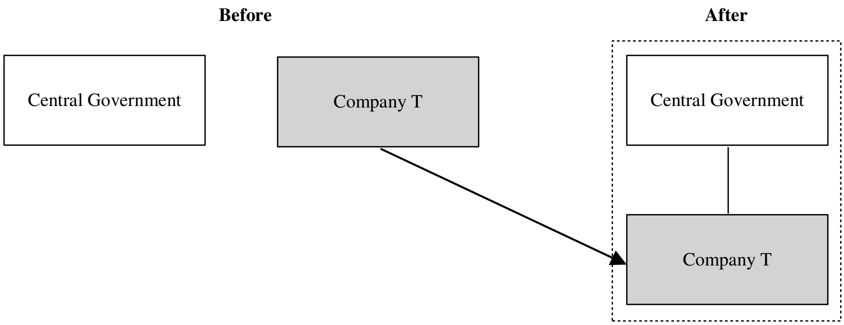
IE127. In considering the indicators relating to consideration, the Ministry of Education notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered those rights. The situation is similar to that of a bargain purchase. In a bargain purchase, a seller may be willing to accept a price below market value where this meets their needs, for example in enabling a quick sale. With a donated operation, the former owner is willing to transfer the operation for no consideration to their preferred counterparty. In this scenario, Not-for-Profit Organization R is willing to transfer Operation S to the Ministry of Education because this will provide improved services to the public. Consequently, the Ministry of Education concludes that the indicators of consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE128. In considering the indicators relating to the decision-making process, the Ministry of Education notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE129. Taking these factors together, the Ministry of Education concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 12: Nationalization of a Private Sector Entity–Forced Seizure

IE130. The following diagram illustrates the nationalization of a private sector entity by a public sector entity by means of a forced seizure.



IE131. In this scenario, Central Government nationalizes Company T through legislation. Central Government does not pay any consideration to the shareholders of Company T. Following the purchase, Company T is managed as an arms-length, stand-alone entity.

IE132. The nationalization of Company T is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.

IE133. In this scenario, Central Government gains:

(a) Power over Company T;

(b) Exposure, or rights, to variable benefits from its involvement with Company T; and

(c) The ability to use its power over Company T to affect the nature or amount of the benefits from its involvement with Company T.

IE134. Central Government concludes that, as a result of the public sector combination, it has gained control of Company T. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE135. In considering the economic substance of the public sector combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Company T. This is inconsistent with the economic substance of an amalgamation. Central

Government also notes that, by depriving the former shareholders of their rights to Company T, the combination has commercial substance, which is suggestive of an acquisition.

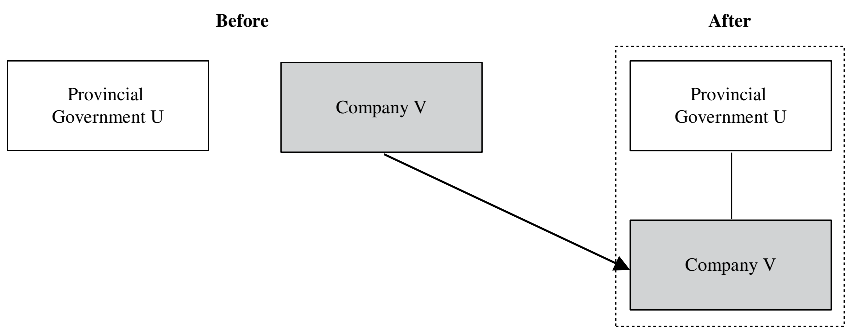
IE136. In considering the indicators relating to consideration, Central Government notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the former shareholders of Company T have had their entitlements extinguished through compulsion, which provides evidence that the economic substance of the combination is that of an acquisition. Central Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE137. In considering the indicators relating to the decision-making process, Central Government notes that Company T does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the public sector combination on Company T provides evidence that the economic substance of the combination is that of an acquisition.

IE138. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 13: Nationalization of a Private Sector Entity–Bailout

IE139. The following diagram illustrates the nationalization of a private sector entity by a public sector entity by means of a bailout.



IE140. In this scenario, Provincial Government U nationalizes Company V through legislation as a result of a bailout. Prior to the nationalization, Company V was in financial distress. Provincial Government U does not pay any consideration to the shareholders of Company V but does assume Company V's

net liabilities. Following the purchase, Company V is managed as an arms-length, stand-alone entity.

IE141. The nationalization of Company V is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government U considers is whether it has gained control of operations as a result of the combination.

IE142. In this scenario, Provincial Government U gains:

(a) Power over Company V;

(b) Exposure, or rights, to variable benefits from its involvement with Company V; and

(c) The ability to use its power over Company V to affect the nature or amount of the benefits from its involvement with Company V.

IE143. Provincial Government U concludes that, as a result of the public sector combination, it has gained control of Company V. Provincial Government U considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE144. In considering the economic substance of the public sector combination, Provincial Government U notes that the combination results in a controlling entity/controlled entity relationship between Provincial Government U and Company V. This is inconsistent with the economic substance of an amalgamation. Provincial Government U also notes that, by assuming the net liabilities of Company V, the combination has commercial substance, which is suggestive of an acquisition.

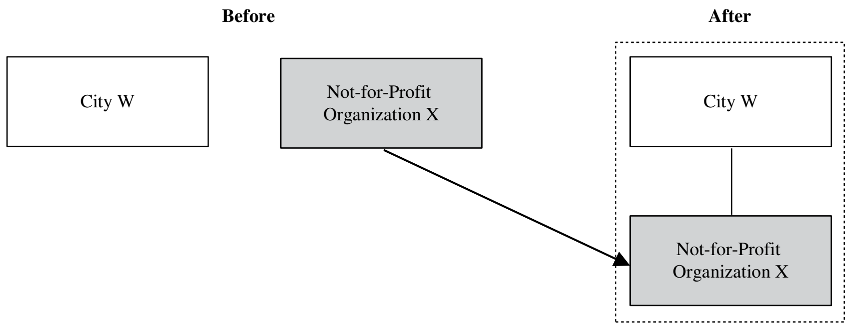
IE145. In considering the indicators relating to consideration, Provincial Government U notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, Company V has net liabilities that are assumed by Provincial Government U as part of the combination. The lack of consideration reflects the fair value of Company V rather than suggesting that the economic substance of the combination is that of an amalgamation. Provincial Government U concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE146. In considering the indicators relating to the decision-making process, Provincial Government U notes that Company V does not act voluntarily. The fact that Provincial Government U (a party to the combination) is able to impose the public sector combination on Company V provides evidence that the economic substance of the combination is that of an acquisition.

IE147. Taking these factors together, Provincial Government U concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 14: Nationalization of a Not-For-Profit Organization–Bailout

IE148. The following diagram illustrates the nationalization of a not-for-profit organization by a public sector entity by means of a bailout.



IE149. In this scenario, City W nationalizes Not-for-Profit Organization X (a charity) as a result of a voluntary bailout. Prior to the nationalization, Not-for-Profit Organization X was in financial distress and approached City W for support. City W assumes Not-for-Profit Organization X's net liabilities. Following the purchase, Not-for-Profit Organization X is managed as an arms-length, stand-alone entity.

IE150. The nationalization of Not-for-Profit Organization X is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question City W considers is whether it has gained control of operations as a result of the combination.

IE151. In this scenario, City W gains:

(a) Power over Not-for-Profit Organization X;

(b) Exposure, or rights, to variable benefits from its involvement with Not-for-Profit Organization X; and

(c) The ability to use its power over Not-for-Profit Organization X to affect the nature or amount of the benefits from its involvement with Not-for-Profit Organization X.

IE152. City W concludes that, as a result of the public sector combination, it has gained control of Not-for-Profit Organization X. City W considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE153. In considering the economic substance of the public sector combination, City W notes that the combination results in a controlling entity/controlled entity relationship between City W and Not-for-Profit Organization X. This is inconsistent with the economic substance of an amalgamation. City W also notes that, by assuming the net liabilities of Not-for-Profit Organization X, the combination has commercial substance, which is suggestive of an acquisition.

IE154. In considering the indicators relating to consideration, City W notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. This is because there is no party with an entitlement to the net assets of Not-for-Profit Organization X (i.e., there is no former owner) as the trustees have no entitlement to the net assets. This would usually provide evidence that the economic substance of the combination is that of an amalgamation. However, in this scenario Not-for-Profit Organization X has net liabilities that are assumed by City W as part of the combination. By assuming the net liabilities, City W relieves the trustees of Not-for-Profit Organization X of the responsibility for settling the liabilities, which is analogous to paying consideration. City W concludes, therefore, that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE155. In considering the indicators relating to the decision-making process, City W notes that Not-for-Profit Organization X voluntarily initiated the combination. City W concludes that the indicators relating to decision-making do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE156. Taking these factors together, City W concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Accounting for Amalgamations

Eliminating Transactions between the Combining Operations - Loans

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

IE157. The following example illustrates the process for eliminating a loan between two combining operations not under common control.

IE158. On 30 June 20X5 Resulting Entity (RE) is formed by an amalgamation of two municipalities, Combining Operation A (COA) and Combining Operation B (COB). Four years previously, COA had provided COB with a ten year, fixed interest rate loan of CU250. Interest on the loan is payable annually, with the principal repayable on maturity.

IE159. COB has recently experienced financial difficulties, and at the amalgamation date was in arrears on making the interest payments. The carrying amount of the financial liability (the amortized cost of the loan) in its financial statements at the amalgamation date is CU260.

IE160. Because of the arrears and the fact that COB was experiencing financial difficulties, COA had impaired the loan. The carrying amount of the financial asset (the loan) in its financial statements at the amalgamation date is CU200.

IE161. At the amalgamation date, RE eliminates the financial asset received from COA and the financial liability assumed from COB and credits components of net assets/equity with CU60, the difference between the carrying amounts of the financial asset and the financial liability associated with the loan.

Eliminating Transactions between the Combining Operations - Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

IE162. The following example illustrates the process for eliminating a transfer between two combining operations not under common control.

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had provided COB with a grant of CU700 to be used in the provision of an agreed number of training courses.

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the grant, but accounted for the full CU700 as an expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party. The resulting entity does not recognize a liability for the CU350, but instead recognizes this amount in net assets/equity.

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

IE166. The following example illustrates the process for 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 under common control.

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 cost model in IPSAS 17, *Property, Plant and Equipment*. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model in IPSAS 17.

IE168. RE adopts an accounting policy of measuring property, plant and equipment using the revaluation 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:

Class of Asset	**Carrying Amount (CU)**	**Valuation (CU)**	**Adjustment (CU)**
Land	17,623	18,410	787
Buildings	35,662	37,140	1,478
Vehicles	1,723	1,605	(118)

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 date as 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 of IPSAS 17, 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*.

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of IPSAS 40

IE172. The following example illustrates the accounting for an amalgamation not under common control in which the resulting entity's tax liability is forgiven as part of the terms of the amalgamation.

IE173. On 1 January 20X6 RE is formed by an amalgamation of two public sector entities, COA and COB. The amalgamation is directed by the national government. RE, COA and COB have the same accounting policies; no adjustment to the carrying amounts of the identifiable assets and liabilities of the COA and COB to conform to the resulting entity's accounting policies is required. At the date of the amalgamation, there are no amounts outstanding between COA and COB.

IE174. In its statement of financial position as at 1 January 20X6, RE recognizes and measures the assets and liabilities of COA and COB at their carrying amounts in their respective financial statements as of the amalgamation date:

Statement of Financial Position:	**COA (CU)**	**COB (CU)**	**RE (CU)**
Financial assets	1,205	997	2,202
Inventory	25	42	67
Property, plant and equipment	21,944	18,061	40,005
Identifiable intangible assets	0	3,041	3,041
Financial liabilities	(22,916)	(22,020)	(44,936)
Tax liabilities	(76)	(119)	(195)
Total net assets	182	2	184
Net Assets/Equity	182	2	184

IE175. Suppose that the terms of the amalgamation include the Ministry of Finance (MF) (the tax authority) forgiving RE's tax liability. RE would derecognize the tax liability and make the adjustment to net assets/equity. The statement of financial position as at 1 January 20X6 for RE would be as follows:

Statement of Financial Position:	RE (CU)
Financial assets	2,202
Inventory	67
Property, plant and equipment	40,005
Intangible assets	3,041
Financial liabilities	(44,936)
Tax liabilities	0
Total net assets	379
Net Assets/Equity	379

IE176. MF accounts for tax receivable in accordance with IPSAS 23, and would recognize an adjustment for the tax forgiven.

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

IE177. The following example illustrates the accounting for recognizing and measuring components of net assets/equity in an amalgamation.

IE178. On 1 June 20X4, a new municipality RE is formed by the amalgamation of operations COA and COB relating to two geographical areas of other municipalities, not previously under common control.

IE179. COB has previously performed services for COA for which it was to be paid CU750. Payment was outstanding at the amalgamation date. This transaction formed part of the carrying amount of financial liabilities for COA and part of the carrying amount of financial assets for COB.

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE has adopted an accounting policy of measuring property, plant and equipment using the revaluation 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.

IE181. The carrying amounts of the assets, liabilities and components of net assets/equity transferred are summarized below. Adjustments to eliminate transactions between COA and COB (see paragraph 22), and to conform the carrying amounts to the resulting entity›s accounting policies are also shown.

	COA (CU)	COB (CU)	Elimination Adjustments (CU)	Accounting Policy Adjustments (CU)	RE Opening Balance (CU)
Financial Assets	11,248	17,311	(750)		27,809
Inventory	1,072	532			1,604
Property, plant and equipment	5,663	12,171		5,750	23,584
Intangible assets	0	137			137
Financial liabilities	(18,798)	(20,553)	750		(38,601)
Total net assets/ (liabilities)	(815)	9,598		5,750	14,533
Revaluation surplus	0	6,939		5,750	12,689
Accumulated surpluses or deficits	(815)	2,659			1,844
Total net assets/equity	(815)	9,598	0	5,750	14,533

IE182. In accordance with paragraphs 37–39 of IPSAS 40, RE may present net assets/ equity as either a single opening balance of CU14,533 or as the separate components shown above.

IE183. The other municipalities that, prior to the amalgamation, controlled COA and COB would derecognize the assets, liabilities and components of net assets/ equity transferred to RE in accordance with other IPSASs.

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of IPSAS 40.

IE184. If the initial accounting for an amalgamation is not complete at the end of the financial reporting period in which the amalgamation occurs, paragraph 40 of IPSAS 40 requires the resulting entity to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 43 of IPSAS 40 requires the resulting entity to recognize such adjustments as if the accounting for the amalgamation had been completed at the amalgamation date. Measurement period adjustments are not included in surplus or deficit.

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 model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the cost model. RE adopts an accounting policy of measuring land and buildings using the revaluation 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.

IE186. In its financial statements for the year ended 31 December 20X4, RE retrospectively adjusts the 20X3 prior year information as follows:

(a) The carrying amount of the land as of 31 December 20X3 is increased by CU10,000. As the land has an indefinite life, no depreciation is charged.

(b) The carrying amount of the buildings as of 31 December 20X3 is increased by CU89,500. That adjustment is measured as the valuation adjustment at the amalgamation date of CU90,000 less the additional depreciation that would have been recognized if the asset's value at the amalgamation date had been recognized from that date (CU500 for one months' depreciation).

(c) An adjustment of CU100,000 is recognized in net assets/equity as of 31 December 20X3.

(d) Depreciation expense for 20X3 is increased by CU500.

IE187. In accordance with paragraph 56 of IPSAS 40, RE discloses:

(a) In its 20X3 financial statements, that the initial accounting for the amalgamation has not been completed because the valuation of land and buildings previously controlled by COB has not yet been received.

(b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, RE discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by CU99,500 (CU100,000 at the amalgamation date), an increase in depreciation expense of CU500 and an increase in net assets/equity of CU100,000.

Subsequent Measurement of a Transfer Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

Illustrating the Consequences of Applying the Requirements in Paragraphs 48 and AG61–AG63 of IPSAS 40.

IE188. The following example illustrates the subsequent accounting for a transfer received by a combining operation on the basis of criteria that may change as a result of an amalgamation.

IE189. On 1 January 20X3, a national government provides an annual grant to those municipalities where the average household income is below a threshold. On 1 June 20X3, RE, a new municipality, is formed by the amalgamation of two existing municipalities, COA and COB. COA had previously received a grant of CU1,000, based on its average household income. COB has received no grant as its average household income was above the threshold.

IE190. Following the amalgamation on 1 June 20X3, the average household income of RE is above the threshold that the government had set when allocating grants.

IE191. On 1 July 20X3, the national government requires RE to repay a portion (CU200) of the grant previously paid to COA. RE recognizes a liability and an expense of CU200 on 1 July 20X3.

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		
54(a)–(c)	On 30 June 20X2 RE was formed by an amalgamation of the former municipalities COA and COB. Neither COA nor COB gained control of RE in the amalgamation. The amalgamation was mutually agreed by COA and COB, and enacted by the Government through legislation. The amalgamation aims to reduce costs through economies of scale, and to provide improved services to residents.	
54(d)	**Amounts recognized for each major class of assets and liabilities transferred as at 30 June 20X2**	
		CU
	Financial assets	1,701
	Inventory	5
	Property, plant and equipment	74,656
	Intangible assets	42
	Financial liabilities	(2,001)
	Total net assets	74,403
54(e)	The following adjustments have been made to the carrying amounts of assets and liabilities recorded by COA and COB as at 30 June 20X2 prior to the amalgamation:	

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 model	12,116	17,954	30,070

54(f) **Amounts recognized in Net assets/equity as at 30 June 20X2**

	COA (CU)	COB (CU)	Adjustment (CU)	RE (CU)
Revaluation surplus	0	18,332	17,954	36,286
Accumulated surpluses or deficits	12,047	26,070	0	38,117

Paragraph reference					
	Total net assets/equity	12,047	44,402	17,954	74,403

54(h) At the time these financial statements were authorized for issue, the last reporting date for COA and COB was 31 December 20X1. The revenue and expense, and surplus or deficit for COA and COB from 1 January 20X2 to the amalgamation date (30 June 20X2), and the amounts reported by COA and COB for each major class of assets and liabilities, and for components of net assets/equity, is shown below:

		COA (CU)	COB (CU)
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from exchange transactions	2,681	25,377
	Transfers from other government entities	32,615	19,345
	Total revenue	80,509	115,091
54(h)(i)	**Expenses**		
	Wages, salaries and employee benefits	(51,263)	(68,549)
	Grants and other transfer payments	(18,611)	(26,445)
	Supplies and consumables used	(7,545)	(13,391)
	Depreciation expense	(677)	(2,598)

Paragraph reference			
	Impairment of property, plant and equipment	(17)	(33)
	Finance costs	(2)	(3)
	Total expenses	(78,115)	(111,019)
54(h)(i)	**Surplus or (deficit) for the period 1 January 20X2 to 30 June 20X2**	2,394	4,072

54(h)(ii)	**Assets as at 30 June 20X2**		
	Financial assets	822	904
	Inventory	0	5
	Property, plant and equipment	12,116	44,586
	Intangible assets	42	0
	Total Assets	12,980	45,495
54(h)(ii)	**Liabilities as at 30 June 20X2**		
	Financial liabilities	(933)	(1,093)
	Total liabilities	(933)	(1,093)
54(h)(iii)	**Net assets as at 30 June 20X2**	12,047	44,402
	Net assets/equity as at 30 June 20X2		
	Revaluation surplus	0	18,332
	Accumulated surpluses or deficits	12,047	26,070
	Total net assets/equity as at 30 June 20X2	12,047	44,402

In considering the disclosures related to an amalgamation, an entity may find it helpful to refer to the discussion of materiality in IPSAS 1, *Presentation of Financial Statements*.

Accounting for Acquisitions

Reverse Acquisitions

Illustrating the Consequences of Recognizing a Reverse Acquisition by Applying Paragraphs AG66–AG71 of IPSAS 40

IE193. This example illustrates the accounting for a reverse acquisition in which Entity B, the legal controlled entity, acquires Entity A, the entity issuing equity instruments and therefore the legal controlling entity, in a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.

IE194. The statements of financial position of Entity A and Entity B immediately before the acquisition are:

	Entity A (legal controlling entity, accounting acquired operation) CU	**Entity B (legal controlled entity, accounting acquirer) CU**
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Accumulated surplus or deficit	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

IE195. This example also uses the following information:

(a) On 30 September 20X6 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. Entity B's sole shareholder, a government, exchanges its shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

(b) The fair value of each ordinary share of Entity B at 30 September 20X6 is CU40. The quoted market price of Entity A's ordinary shares at that date is CU16.

(c) The fair values of Entity A's identifiable assets and liabilities at 30 September 20X6 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30 September 20X6 is CU1,500.

Calculating the Fair Value of the Consideration Transferred

IE196. As a result of Entity A (legal controlling entity, accounting acquired operation) issuing 150 ordinary shares, Entity B's shareholder (the government) owns 60 percent of the issued shares of the combined entity (i.e., 150 of 250 issued shares). The remaining 40 percent are owned by Entity A's shareholders. If the acquisition had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholder (the government) would then own 60 of the 100 issued shares of Entity B—60 percent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is CU1,600 (40 shares with a fair value per share of CU40).

IE197. The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred than the fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of CU16.

Measuring Goodwill

IE198. Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognized identifiable assets and liabilities, as follows:

	CU	**CU**
Consideration effectively transferred		1,600
Net recognized values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	

	CU	CU
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated Statement of Financial Position at 30 September 20X6

IE199. The consolidated statement of financial position immediately after the acquisition is:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit	1,400
Issued equity	
250 ordinary shares [CU600 + CU1,600]	2,200
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE200. The amount recognized as issued equity interests in the consolidated financial statements (CU2,200) is determined by adding the issued equity of the legal controlled entity immediately before the acquisition (CU600) and the fair value of the consideration effectively transferred (CU1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal controlling entity, including the equity interests issued by the legal controlling entity to effect the combination.

Non-Controlling Interest

IE201. Assume the same facts as above, except that Entity B has more than one shareholder, and that only 56 of Entity B's 60 ordinary shares are exchanged. Because Entity A issues 2.5 shares in exchange for each ordinary share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 percent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquired operation, is calculated by assuming that the combination had been effected by Entity B issuing additional ordinary shares to the shareholders of Entity A in exchange for their ordinary shares in Entity A. That is because Entity B is the accounting acquirer, and paragraph AG67 of IPSAS 40 requires the acquirer to measure the consideration exchanged for the accounting acquired operation.

IE202. In calculating the number of shares that Entity B would have had to issue, the non-controlling interest is excluded from the calculation. The majority shareholder (the government) owns 56 shares of Entity B. For that to represent a 58.3 percent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholder (the government) would then own 56 of the 96 issued shares of Entity B and, therefore, 58.3 percent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquired operation, is CU1,600 (i.e., 40 shares, each with a fair value of CU40). That is the same amount as when Entity B's sole shareholder tenders all 60 of its ordinary shares for exchange. The recognized amount of the group's interest in Entity A, the accounting acquired operation, does not change if some of Entity B's shareholders do not participate in the exchange.

IE203. The non-controlling interest is represented by the four shares of the total 60 shares of Entity B that are not exchanged for shares of Entity A. Therefore, the non-controlling interest is 6.7 percent. The non-controlling interest reflects the proportionate interest of the non-controlling shareholders in the pre-combination carrying amounts of the net assets of Entity B, the legal controlled entity. Therefore, the consolidated statement of financial position is adjusted to show a non-controlling interest of 6.7 percent of the pre-combination carrying amounts of Entity B's net assets (i.e., CU134 or 6.7 percent of CU2,000).

IE204. The consolidated statement of financial position at 30 September 20X6, reflecting the non-controlling interest, is as follows:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500

	CU
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit [CU1,400 × 93.3 percent]	1,306
Issued equity	
240 ordinary shares [CU560 + CU1,600]	2,160
Non-controlling interest	134
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE205. The non-controlling interest of CU134 has two components. The first component is the reclassification of the non-controlling interest's share of the accounting acquirer's retained earnings immediately before the acquisition (CU1,400 × 6.7 percent or CU93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity (CU600 × 6.7 percent or CU40.20).

Identifiable Intangible Assets in an Acquisition

Illustrating the Consequences of Applying Paragraphs 64–68 and AG75–AG84 of IPSAS 40

IE206. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.

IE207. Intangible assets identified as having a 'binding arrangement' basis are those that arise from binding arrangements (including rights from contracts or other legal rights). Those designated as having a 'no binding arrangement' basis do not arise from binding arrangements but are separable. Intangible assets identified as having a binding arrangement basis might also be separable but separability is not a necessary condition for an asset to meet the binding arrangement criterion.

Marketing-Related Intangible Assets

IE208. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	**Basis**
Trademarks, trade names, service marks, collective marks and certification marks	Binding arrangement
Trade dress (unique color, shape or package design)	Binding arrangement
Newspaper mastheads	Binding arrangement
Internet domain names	Binding arrangement
Non-competition agreements	Binding arrangement

Trademarks, Trade Names, Service Marks, Collective Marks and Certification Marks

IE209. Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

IE210. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in an acquisition is an intangible asset that meets the binding arrangement criterion. Otherwise, a trademark or other mark acquired in an acquisition can be recognized separately from goodwill if the separability criterion is met, which normally it would be.

IE211. The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. IPSAS 40 does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet Domain Names

IE212. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an acquisition meets the binding arrangement criterion.

Service User or Customer-Related Intangible Assets

IE213. Examples of service user or customer-related intangible assets are:

Class	**Basis**
Lists of users of a service	No binding arrangement
Order or production backlog	Binding arrangement
Customer binding arrangements and the related customer relationships	Binding arrangement
Customer relationships arising through means other than binding arrangements	No binding arrangement

Lists of Users of a Service

IE214. A list of users of a service consists of information about service users, such as their names and contact information. A list of users of a service also may be in the form of a database that includes other information about the users, such as their service use histories and demographic information. A list of users of a service does not usually arise from a binding arrangement (including rights from contracts or other legal rights). However, lists of users of a service are often leased or exchanged. Therefore, a list of users of a service acquired in an acquisition normally meets the separability criterion.

Order or Production Backlog

IE215. An order or production backlog arises from binding arrangements such as purchase or sales orders. An order or production backlog acquired in an acquisition meets the binding arrangement criterion even if the purchase or sales orders can be cancelled.

Customer Binding Arrangements and the Related Customer Relationships

IE216. If an entity establishes relationships with its customers through binding arrangements, those customer relationships arise from binding arrangement rights. Therefore, customer binding arrangements and the related customer relationships acquired in an acquisition meet the binding arrangement criterion, even if confidentiality or other terms of the binding arrangement prohibit the sale or transfer of a binding arrangement separately from the acquired operation.

IE217. A customer binding arrangement and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.

IE218. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the binding arrangement criterion if an entity has a practice of establishing binding arrangements with its customers, regardless of whether a binding arrangement exists at the acquisition date. Customer relationships may also arise through means other than binding arrangements, such as through regular contact by sales or service representatives.

IE219. As noted in paragraph IE215, an order or a production backlog arises from binding arrangements such as purchase or sales orders and is therefore considered a binding arrangement right. Consequently, if an entity has relationships with its customers through these types of binding arrangements, the customer relationships also arise from binding arrangement rights and therefore meet the binding arrangement criterion.

Examples

IE220. The following examples illustrate the recognition of customer binding arrangement and customer relationship intangible assets acquired in an acquisition.

(a) Acquirer Entity (AE) acquires Target Entity (TE) in an acquisition on 31 December 20X5. TE has a five-year agreement to supply goods to Customer. Both TE and AE believe that Customer will renew the agreement at the end of the current binding arrangement. The agreement is not separable.

The agreement, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, not only the agreement itself but also TE's customer relationship with Customer meet the binding arrangement criterion.

(b) AE acquires TE in an acquisition on 31 December 20X5. TE manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TE. TE has a binding arrangement with Customer to be its exclusive provider of sporting goods but has no binding arrangement for the supply of electronics to Customer. Both TE and AE believe that only one overall customer relationship exists between TE and Customer.

The binding arrangement to be Customer's exclusive supplier of sporting goods, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, the customer relationship with Customer meets the binding arrangement criterion. Because TE has only one customer relationship with Customer, the fair value of that relationship incorporates assumptions about TE's relationship with Customer related to both sporting goods and electronics. However, if AE determines that the customer relationships with Customer for sporting goods and for electronics are separate from each other, AE would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset.

(c) AE acquires TE in an acquisition on 31 December 20X5. TE does business with its customers solely through purchase and sales orders. At 31 December 20X5, TE has a backlog of customer purchase orders from 60 percent of its customers, all of whom are recurring customers. The other 40 percent of TE's customers are also recurring customers. However, as of 31 December 20X5, TE has no open purchase orders or other binding arrangements with those customers.

Regardless of whether they are cancellable or not, the purchase orders from 60 percent of TE's customers meet the binding arrangement criterion. Additionally, because TE has established its relationship with 60 percent of its customers through binding arrangements, not only the purchase orders but also TE's customer relationships meet the binding arrangement criterion. Because TE has a practice of establishing binding arrangements with the remaining 40 percent of its customers, its relationship with those customers also arises through binding arrangement rights and therefore meets the binding arrangement criterion even though TE does not have binding arrangements with those customers at 31 December 20X5.

(d) AE acquires TE, an insurer, in an acquisition on 31 December 20X5. TE has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TE establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the binding arrangement criterion. IPSAS 26, *Impairment of*

Cash-Generating Assets and IPSAS 31, *Intangible Assets* apply to the customer relationship intangible asset.

Customer Relationships Arising through Means Other than Binding Arrangements

IE221. A customer relationship acquired in an acquisition that does not arise from a binding arrangement may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of customer relationship arising through means other than binding arrangements would provide evidence that the relationship is separable.

Artistic-Related Intangible Assets

IE222. Examples of artistic-related intangible assets are:

Class	**Basis**
Plays, operas and ballets	Binding arrangement
Books, magazines, newspapers and other literary works	Binding arrangement
Musical works such as compositions, song lyrics and advertising jingles	Binding arrangement
Pictures and photographs	Binding arrangement
Video and audio-visual material, including motion pictures or films, music videos and television programs	Binding arrangement

IE223. Artistic-related assets acquired in an acquisition are identifiable if they arise from binding arrangements (including rights from contracts) or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognizing a copyright intangible asset and any related assignments or license agreements as a single asset, provided they have similar useful lives.

Binding Arrangement-Based Intangible Assets

IE224. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of an operating lease or binding arrangement with a customer are unfavorable relative to market terms), the acquirer recognizes it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

Class	**Basis**
Licensing, royalty and standstill agreements	Binding arrangement
Advertising, construction, management, service or supply binding arrangements	Binding arrangement
Lease agreements (whether the acquired operation is the lessee or the lessor)	Binding arrangement
Construction permits	Binding arrangement
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

Servicing Binding Arrangements, Such as Mortgage Servicing Binding Arrangements

IE225. Binding arrangements to service financial assets are one type of binding arrangement-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

(a) When separated in the binding arrangement from the underlying financial asset by sale or securitization of the assets with servicing retained;

(b) Through the separate purchase and assumption of the servicing.

IE226. If mortgage loans, credit card receivables or other financial assets are acquired in an acquisition with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Binding Arrangements for Employment

IE227. Binding arrangements for employment that are beneficial binding arrangements from the perspective of the employer because the pricing of those binding arrangements is favorable relative to market terms are one type of binding arrangement-based intangible asset.

Use Rights

IE228. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are binding arrangement-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-Based Intangible Assets

IE229. Examples of technology-based intangible assets are:

Class	**Basis**
Patented technology	Binding arrangement
Computer software and mask works	Binding arrangement
Unpatented technology	No binding arrangement
Databases, including title plants	No binding arrangement
Trade secrets, such as secret formulas, processes and recipes	Binding arrangement

Computer Software and Mask Works

IE230. Computer software and program formats acquired in an acquisition that are protected legally, such as by patent or copyright, meet the binding arrangement criterion for identification as intangible assets.

IE231. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an acquisition meet the binding arrangement criterion for identification as intangible assets.

Databases, Including Title Plants

IE232. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an acquisition and protected by copyright meets the binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as lists of service users, or specialized information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an acquisition meets the separability criterion.

IE233. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an acquisition meet the separability criterion.

Trade Secrets, Such as Secret Formulas, Processes and Recipes

IE234. A trade secret is 'information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.'[3] If the future economic benefits from a trade secret acquired in an acquisition are legally protected, that asset meets the binding arrangement criterion. Otherwise, trade secrets acquired in an acquisition are identifiable only if the separability criterion is met, which is likely to be the case.

Measurement of Non-Controlling Interest (NCI) in an Acquisition

Illustrating the Consequences of Applying Paragraph 73 of IPSAS 40.

IE235. The following examples illustrate the measurement of components of NCI at the acquisition date in an acquisition.

Measurement of NCI Including Preference Shares

IE236. TE has issued 100 preference shares, which are classified as equity. The preference shares have a nominal value of CU1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TE, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of CU1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.

IE237. AE acquires all ordinary shares of TE. The transaction gives AE control of TE, and an analysis of the economic substance of the combination using the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 confirms the transaction is an acquisition. The acquisition-date fair value of the preference shares is CU120.

3 Melvin Simensky and Lanning Bryer, The New Role of Intellectual Property in Commercial Transactions (New York: John Wiley & Sons, 1998), page 293.

IE238. Paragraph 73 of IPSAS 40 states that for each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the acquired operation's recognized amounts of the identifiable net assets. All other components of non-controlling interest must be measured at their acquisition-date fair value, unless another measurement basis is required by IPSASs.

IE239. The non-controlling interests that relate to TE's preference shares do not qualify for the measurement choice in paragraph 73 of IPSAS 40 because they do not entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The acquirer measures the preference shares at their acquisition-date fair value of CU120.

First Variation

IE240. Suppose that upon liquidation of TE, the preference shares entitle their holders to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that the acquisition-date fair value of the preference shares is now CU160 and that the proportionate share of TE's recognized amounts of the identifiable net assets that is attributable to the preference shares is CU140.

IE241. The preference shares qualify for the measurement choice in paragraph 73 of IPSAS 40. AE can choose to measure the preference shares either at their acquisition-date fair value of CU160 or at their proportionate share in the acquired operation's recognized amounts of the identifiable net assets of CU140.

Second Variation

IE242. Suppose also that TE has issued share options as remuneration to its employees. The share options are classified as equity and are vested at the acquisition date. They do not represent present ownership interest and do not entitle their holders to a proportionate share of TE's net assets in the event of liquidation. The fair value of the share options in accordance with the relevant international or national accounting standard dealing with share-based payments at the acquisition date is CU200. The share options do not expire on the acquisition date and AE does not replace them.

IE243. Paragraph 73 of IPSAS 40 requires such share options to be measured at their acquisition-date fair value, unless another measurement basis is required by IPSASs. Paragraph 84 of IPSAS 40 states that the acquirer shall measure an equity instrument related to share-based payment transactions of the acquired operation in accordance with the relevant international or national accounting standard dealing with share-based payments.

IE244. The acquirer measures the non-controlling interests that are related to the share options at their fair value of CU200.

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85–AG87 of IPSAS 40

IE245. The following example illustrates the accounting for an acquisition in which part of the acquired operation's tax liability is forgiven as part of the terms of the acquisition.

IE246. On 1 January 20X4 AE, a government ministry acting on behalf of the government, acquires TE, a private entity in exchange for cash of CU575. As a result of the acquisition, AE expects to reduce costs through economies of scale. The fair value of the assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed:	**CU**
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(40)
Total net assets	562

IE247. AE recognizes goodwill of CU13, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU562).

IE248. Suppose that as part of the terms of the acquisition, the government requires MF (the tax authority) to forgive 50 percent of TE's tax liability. The fair value of the assets acquired and liabilities assumed would now be as follows:

Assets acquired and liabilities assumed:	**CU**
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(20)
Total net assets	582

IE249. AE recognizes a gain of CU7, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU582). AE would account for the remaining tax liability in accordance with the relevant international or national accounting standard dealing with income taxes.

IE250. MF accounts for tax receivable in accordance with IPSAS 23, and would recognize an adjustment for the tax forgiven.

Gain on a Bargain Purchase in an Acquisition

Illustrating the Consequences of Recognizing and Measuring a Gain from a Bargain Purchase in an Acquisition by Applying Paragraphs 85–90 of IPSAS 40

IE251. The following example illustrates the accounting for an acquisition in which a gain on a bargain purchase is recognized.

IE252. On 1 January 20X5 AE acquires 80 percent of the equity interests of TE, a private entity, in exchange for cash of CU150. Because the former owners of TE needed to dispose of their investments in TE by a specified date, they did not have sufficient time to market TE to multiple potential buyers. The management of AE initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of IPSAS 40. The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AE engages an independent consultant, who determines that the fair value of the 20 percent non-controlling interest in TE is CU42.

IE253. The amount of TE's identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TE. Therefore, AE reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TE and the consideration transferred. After that review, AE decides that the procedures and resulting measures were appropriate. AE measures the gain on its purchase of the 80 percent interest as follows:

			CU
Amount of the identifiable net assets acquired (CU250 – CU50)			200
Less:	Fair value of the consideration transferred for AE's 80 percent interest in TE; plus	150	
	Fair value of non-controlling interest in TE	42	
			192
Gain on bargain purchase of 80 percent interest			8

IE254. AE would record its acquisition of TE in its consolidated financial statements as follows:

	CU	**CU**
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TE		42

IE255. If the acquirer chose to measure the non-controlling interest in TE on the basis of its proportionate interest in the identifiable net assets of the acquired operation, the recognized amount of the non-controlling interest would be CU40 (CU200 × 0.20). The gain on the bargain purchase then would be CU10 (CU200 – (CU150 + CU40)).

Measurement Period in an Acquisition

Illustrating the Consequences of Applying Paragraphs 103–108 of IPSAS 40.

IE256. If the initial accounting for an acquisition is not complete at the end of the financial reporting period in which the combination occurs, paragraph 103 of IPSAS 40 requires the acquirer to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 107 of IPSAS 40 requires the acquirer to recognize such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.

IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorized for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognized a provisional fair value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of 31 December 20X7 is increased by CU9,500. That adjustment is measured as the fair value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognized if the asset's fair value at the acquisition date had been recognized from that date (CU500 for three months' depreciation).

(b) The carrying amount of goodwill as of 31 December 20X7 is decreased by CU10,000.

(c) Depreciation expense for 20X7 is increased by CU500.

IE259. In accordance with paragraph 124 of IPSAS 40, AE discloses:

(a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.

(b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Determining what is Part of the Acquisition Transaction

Settlement of a Pre-Existing Relationship – loan

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE260. AE provides TE with a five year, fixed rate loan of CU100. Interest is payable quarterly, with the principal repaid on maturity. With two years remaining under the loan agreement, AE acquires TE.

IE261. Included in the total fair value of TE is a CU90 financial liability for the fair value of the loan arrangement with AE. At the acquisition date, the carrying amount of the corresponding financial asset in AE's financial statements (the amortized cost of the loan) is CU100.

IE262. In this example, AE calculates a loss of CU10. The loss is calculated as the difference between the fair value of the financial liability assumed and carrying amount of the corresponding financial asset previously recognized by AE. In its consolidated financial statements, AE will eliminate its financial asset (CU100) against the fair value of TE's financial liability (CU90), the difference representing the loss to AE.

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE provided TE with a grant of CU800 to be used in the provision of an agreed number of training courses.

IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its performance obligation, in accordance with IPSAS 23. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the grant, but accounted for the full CU800 as an expense.

IE265. In this example, AE calculates a gain of CU600. The gain is calculated as the liability assumed that is derecognized because, as a result of the acquisition, there is no longer an obligation owed to a third party.

IE266. In this example, no corresponding asset had been recognized by AE; if AE had previously recognized a corresponding asset, this would be derecognized at the acquisition date, and the derecognized amount would be included in the calculation of the gain or loss.

Settlement of a Pre-Existing Relationship – Supply Contract

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE267. AE purchases electronic components from TE under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AE could purchase similar electronic components from another supplier. The supply contract allows AE to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AE pays CU50 million to acquire TE, which is the fair value of TE based on what other market participants would be willing to pay.

IE268. Included in the total fair value of TE is CU8 million related to the fair value of the supply contract with AE. The CU8 million represents a CU3 million component that is 'at market' because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavorable to AE because it exceeds the price of current market transactions for similar items. TE has no other identifiable assets or liabilities related to the supply contract, and AE has not recognized any assets or liabilities related to the supply contract before the acquisition.

IE269. In this example, AE calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the acquisition. The CU3 million 'at-market' component of the contract is part of goodwill.

IE270. Whether AE had recognized previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognized as a gain or loss for the effective settlement of the relationship. Suppose that IPSASs had required AE to recognize a CU6 million liability for the supply contract before the acquisition. In that situation, AE recognizes a CU1 million settlement gain on the contract in surplus or deficit at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognized). In other words, AE has in effect settled a recognized liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

Contingent Payments to Employees in an Acquisition

Illustrating the Consequences of Applying Paragraphs 109–110, AG98 and AG102–AG103 of IPSAS 40.

IE271. TE appointed a candidate as its new CEO under a ten-year contract. The contract required TE to pay the candidate CU5 million if TE is acquired before the contract expires. AE acquires TE eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

IE272. In this example, TE entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AE or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.

IE273. In other circumstances, TE might enter into a similar agreement with CEO at the suggestion of AE during the negotiations for the acquisition. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AE or the combined entity rather than TE or its former owners. In that situation, AE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or an Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

Illustrating the Consequences of Applying Paragraphs 114 and AG109–AG111 of IPSAS 40.

IE274. The following example illustrates the subsequent accounting for a transfer received by an acquirer on the basis of criteria that may change as a result of an acquisition.

IE275. On 1 January 20X6, a national government provides an annual grant to those municipalities where their revenue per head of population is below a threshold. On 1 June 20X3 AE, a municipality, acquires TE, a shopping complex that will generate revenue for AE. AE had previously received a grant of CU500, based on its revenue per head of population.

IE276. As a result of its acquisition of TE on 1 June 20X3, the revenue per head of population of AE increases above the threshold that the government had set when allocating grants.

IE277. On 1 July 20X3, the national government requires AE to repay a portion (CU100) of the grant previously received by AE. AE recognizes a liability and an expense of CU100 on 1 July 20X3.

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		
120(a)–(d)	On 30 June 20X2 AE acquired 75 percent of the ordinary shares of TE and obtained control of TE. An analysis of the economic substance of the combination confirms the transaction is an acquisition. TE is a provider of medical supplies. As a result of the acquisition, AE is expected to deliver improved healthcare to its residents. It also expects to reduce costs through economies of scale.	
120(e)	The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AE and TE.	
120(k)	None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for TE and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TE.	
	At 30 June 20X2	
	Consideration	**CU**
120(f)(i)	Cash	11,000
120(f)(iii); 120(g)(i)	Contingent consideration arrangement	1,000
120(f)	**Total consideration transferred**	12,000
120(m)	**Acquisition-related costs** (included in selling, general and administrative expenses in AE's statement of comprehensive income for the year ended 31 December 20X2)	1,250
120(i)	**Recognized amounts of identifiable assets acquired and liabilities assumed**	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300

Paragraph reference		
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
120(p)(i)	**Non-controlling interest in TE**	(3,300)
	Goodwill	2,500
		12,000

120(f)(iii) 120(g) 124(b) The contingent consideration arrangement requires AE to pay the former owners of TE 5 percent of the revenues of XE, an unconsolidated equity investment 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. 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.

120(h) The fair value of the financial assets acquired includes receivables with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.

124(a) The fair value of the acquired identifiable intangible assets of CU3,300 is provisional pending receipt of the final valuations for those assets.

Paragraph reference	
120(j) 124(c) IPSAS 19.97, 98	A contingent liability of CU1,000 has been recognized for expected warranty claims on products sold by TE during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be incurred by the end of 20X4. The potential undiscounted amount of all future payments that AE could be required to make under the warranty arrangements is estimated to be between CU500 and CU1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognized for the liability or any change in the range of outcomes or assumptions used to develop the estimates.
120(p)	The fair value of the non-controlling interest in TE, a listed entity, was measured using the closing market price of TE's ordinary shares on the acquisition date.
120(r)(i)	The revenue included in the consolidated statement of comprehensive income since 30 June 20X2 contributed by TE was CU4,090. TE also contributed profit of CU1,710 over the same period.
120(r)(ii)	Had TE been consolidated from 1 January 20X2 the consolidated statement of comprehensive income would have included revenue of CU27,670 and profit of CU12,870.

In considering the disclosures related to an acquisition, an entity may find it helpful to refer to the discussion of materiality in IPSAS 1.

Comparison with IFRS 3

The acquisition accounting requirements in IPSAS 40 are drawn primarily from IFRS 3 (issued in 2004, including amendments up to December 31, 2015). The main differences between these requirements in IPSAS 40 and IFRS 3 are as follows:

- IFRS 3 includes guidance on determining the acquirer. In IPSAS 40, this is addressed when classifying a public sector combination as either an amalgamation or an acquisition.
- IPSAS 40 contains additional guidance on public sector specific transactions, for example tax forgiveness.
- IPSAS 40 uses different terminology, in certain instances, from IFRS 3. The most significant examples are the use of the terms "public sector combination", "operation", and "acquired operation". The equivalent terms in IFRS 3 are "business combination", "business" and "acquiree".

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD UNDER THE CASH BASIS OF ACCOUNTING

The International Public Sector Accounting Standards Board (the IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in its Exposure Drafts and Consultation Papers.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB considers that this Standard is an important step forward in improving the consistency and comparability of financial reporting under the cash basis of accounting and encourages the adoption of this Standard. Financial statements should be described as complying with this IPSAS only if they comply with all the requirements of Part 1 of this IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

Structure of the Standard

This Standard comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the Standard must be complied with by entities which claim to be reporting in accordance with the International Public Sector Accounting Standard *Financial Reporting under the Cash Basis of Accounting*.

- Sections 1.1 to 1.8 of Part 1 of this Standard were issued in 2003. Section 1.9 of Part 1, "Presentation of Budget Information in Financial Statements" was issued in 2006. Amendments were made to paragraphs 1.3.4(c), 1.3.7, 1.3.9(c) and Appendix 1 of Part 1 in 2006 as a consequence of the issue of Section 1.9. Section 1.10 of Part 1, "Recipients of External Assistance" was issued in 2007. Amendments were made to paragraphs 1.3.18 and Appendix 1 of Part 1 in 2007 as a consequence of the issue of Section 1.10.

- Part 2 is not mandatory. It identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.

- Paragraphs 2.1.1 to 2.1.59 of Section 2.1, Section 2.2 and Appendices 2, 3, 4 and 5 were issued in 2003. Paragraphs 2.1.37 to 2.1.40 were added to Part 2 in 2006 to encourage certain disclosures about budget and actual amounts, and paragraph 2.1.36 and Appendix 2 were revised as a consequence. Paragraphs 2.1.64 to 2.1.93 were added to Part 2 in 2007 to encourage certain disclosures about external assistance, and paragraphs 2.1.25, 2.1.30 and Appendix 2 were revised as a consequence.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

CONTENTS

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

PART 1: REQUIREMENTS

Part 1 of this Standard sets out the requirements for reporting under the cash basis of accounting.

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards." International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The purpose of this Standard is to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting.

Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity's own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

1.1 Scope of the Requirements

1.1.1 ***An entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.***

1.1.2 General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media and employees. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report.

1.1.3 This Standard applies equally to the general purpose financial statements of an individual entity and to the consolidated general purpose financial statements of an economic entity such as a whole-of-government. It requires the preparation of a statement of cash receipts and payments which recognizes the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes. It also requires that amounts settled on behalf of the reporting entity by third parties be disclosed on the face of the statement of cash receipts and payments.

1.1.4 ***An entity whose financial statements comply with the requirements of Part 1 of this Standard should disclose that fact. Financial statements should not be described as complying with this Standard unless they comply with all the requirements in Part 1 of the Standard.***

1.1.5 ***This Standard applies to all public sector entities other than Government Business Enterprises.***

1.1.6 The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 1.2.1 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).

1.1.7 The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

1.2 The Cash Basis

Definitions

1.2.1 ***The following terms are used in this Standard with the meaning specified:***

<u>Cash</u> comprises cash on hand, demand deposits and cash equivalents.

<u>Cash basis</u> means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

<u>Cash equivalents</u> are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

<u>Cash flows</u> are inflows and outflows of cash.

<u>Cash payments</u> are cash outflows.

<u>Cash receipts</u> are cash inflows.

<u>Control of cash</u> arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.

<u>Government Business Enterprise</u> means an entity that has all the following characteristics:

(a) ***Is an entity with the power to contract in its own name;***

(b) ***Has been assigned the financial and operational authority to carry on a business;***

(c) ***Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;***

(d) ***Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and***

(e) ***Is controlled by a public sector entity.***

Cash Basis of Accounting

1.2.2 The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

Cash Equivalents

1.2.3 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

1.2.4 Bank borrowings are generally considered to give rise to cash inflows. However, in some jurisdictions, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

1.2.5 Cash flows exclude movements between items that constitute cash because these components are part of the cash management of an entity rather than increases or decreases in the cash it controls. Cash management includes the investment of excess cash on hand in cash equivalents.

Cash Controlled by the Reporting Entity

1.2.6 Cash is controlled by an entity when the entity can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, an entity which the entity can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the entity.

1.2.7 Amounts deposited in the bank account of an entity are controlled by that entity. In some cases, cash which a government entity:

(a) Collects on behalf of its government (or another entity) is deposited in its own bank account before transfer to consolidated revenue or another general government account; and

(b) Is to transfer to third parties on behalf of its government is initially deposited in its own bank account prior to transfer to the authorized recipient.

In these cases, the entity will control the cash for only the period during which the cash resides in its bank account prior to transfer to consolidated revenue or another government controlled bank account, or to third parties. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions. Additional guidance on the treatment of cash flows that an entity administers on behalf of other entities is included in paragraphs 2.1.15 to 2.1.22 of Part 2 of this Standard.

1.2.8 In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a "single account" basis. Under these arrangements, individual departments and entities do not control their own bank accounts. Rather, government monies are managed by a central entity through a "single" government account or series of accounts. The central entity will make payments on behalf of individual departments and entities after appropriate authorization and documentation. Consequently, individual departments and entities do not control the cash that they have been appropriated or otherwise authorized to expend. In these cases, the expenditures made by individual departments and entities will be reported in a separate column headed "treasury account" (or a similarly described column) in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.24(a).

1.2.9 In some cases, the centralized treasury function will be undertaken by an entity which controls the bank account(s) from which payments on behalf of the individual operating departments and other entities are made. In these cases, transfers to and payments from those bank accounts reflect cash receipts and payments which the central entity administers on behalf of the individual operating departments and other entities. Paragraph 1.3.13 specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other entities and which are recognized in the primary financial statements may be reported on a net basis. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions.

1.3 Presentation and Disclosure Requirements

Definitions

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

<u>Accounting policies</u> are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

<u>Materiality:</u> information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.

<u>Reporting date</u> means the date of the last day of the reporting period to which financial statements relate.

<u>Economic entity</u> means a group of entities comprising a controlling entity and one or more controlled entities.

1.3.2 Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data that form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.

1.3.3 The principle of materiality provides that the specific disclosure requirements of International Public Sector Accounting Standards need not be met if the resulting information is not material.

Financial Statements

1.3.4 ***An entity should prepare and present general purpose financial statements which include the following components:***

(a) ***A statement of cash receipts and payments which:***

(i) ***Recognizes all cash receipts, cash payments and cash balances controlled by the entity; and***

(ii) ***Separately identifies payments made by third parties on behalf of the entity in accordance with paragraph 1.3.24 of this Standard;***

(b) ***Accounting policies and explanatory notes; and***

(c) ***When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.9.8 of this Standard.***

1.3.5 ***When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraphs 1.3.4(a) or 1.3.4(c), such information should be disclosed in the notes to the financial statements.***

1.3.6 The general purpose financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a)(i) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognized as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the general purpose financial statements may include a comparison of budget and actual amounts as an additional financial statement.

1.3.7 Paragraph 1.3.24 of this Standard requires disclosure on the face of the statement of cash receipts and payments of certain payments made by third parties on behalf of the reporting entity. Payments made by third parties will not satisfy the definition of cash, cash payments and cash receipts as defined in paragraph 1.2.1 of this Standard and will not be presented as cash receipts and payments controlled by the reporting entity in the statement of cash receipts and payments or other statements that might be prepared by the reporting entity. Paragraph 1.9.17 of this Standard provides that an entity can present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented.

1.3.8 Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include information required and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability.

1.3.9 This Standard does not preclude an entity from including in its general purpose financial statements, statements in addition to the statement of cash receipts and payments as specified in paragraph 1.3.4 above. Consequently, general purpose financial statements may also include additional statements which, for example:

(a) Report cash receipts, cash payments and cash balances for major fund categories such as the consolidated revenue fund;

(b) Provide additional information about the sources and deployment of borrowings and the nature and type of cash payments; or

(c) Provide a comparison of actual and budget amounts.

In accordance with the requirements of paragraph 1.3.5 above, any additional statements will only report cash receipts, payments and balances which are controlled by the entity.

1.3.10 Entities that report using the cash basis of accounting frequently collect information on items that are not recognized under cash accounting. Examples of the type of information that may be collected include details of:

(a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;

(b) Commitments and contingent liabilities; and

(c) Performance indicators and the achievement of service delivery objectives.

1.3.11 Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves, comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.

Information to be Presented in the Statement of Cash Receipts and Payments

1.3.12 ***The statement of cash receipts and payments should present the following amounts for the reporting period:***

(a) ***Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;***

(b) ***Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and***

(c) ***Beginning and closing cash balances of the entity.***

1.3.13 ***Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, should be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:***

(a) ***They arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or***

(b) ***They are for items in which the turnover is quick, the amounts are large, and the maturities are short.***

1.3.14 ***Line items, headings and sub-totals should be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.***

1.3.15 This Standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof. This will ensure that the financial statements provide comprehensive information about the cash balances of the entity and changes therein over the period in a format that is accessible and understandable to users.

1.3.16 Disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows.

Classification

1.3.17 The sub-classifications (or classes) of total cash receipts and payments which will be disclosed in accordance with paragraphs 1.3.12 and 1.3.14 are a matter of professional judgment. That judgment will be applied in the context of the objective and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarizes the qualitative characteristics of financial reporting. Total cash receipts may be classified to, for example, separately identify cash receipts from: taxation or appropriation; grants and donations; borrowings; proceeds from the disposal of property, plant and equipment; and other ongoing service delivery and trading activities. Total cash payments may be classified to, for example, separately identify cash payments in respect of: ongoing service delivery activities including transfers to constituents or other governments or entities; debt reduction programs; acquisitions of property, plant and equipment; and any trading activities. Alternative presentations are also possible, for example total cash receipts may be classified by reference to their source and cash payments may be sub-classified by reference to either the nature of the payments or their function or program within the entity, as appropriate.

Line Items, Headings and Sub-Totals

1.3.18 Factors to be taken into consideration in determining which line items, headings and sub-totals should be presented within each sub-classification in accordance with the requirements of paragraph 1.3.14 above include: the requirements of other sections of this Standard (for example, paragraph 1.10.8 requires that total external assistance received in cash during the period be disclosed separately on the face of the Statement of Cash Receipts and Payments); assessments of the likely materiality of the disclosures to users; and the extent to which necessary explanations and disclosures are made in the notes to the financial statements. Paragraphs 2.1.23 to 2.1.30 of Part 2 of this Standard set out disclosures of additional major classes of cash flows that an entity is encouraged to make in the notes to the financial statements or in the financial statements themselves. It is likely that in many, but not necessarily all, cases these disclosures will satisfy the requirements of paragraph 1.3.12 above.

Reporting on a Net Basis

1.3.19 This Standard requires the reporting of cash receipts, payments and balances on a gross basis except in the circumstances identified by paragraph 1.3.13 above. Paragraphs 1.3.20 to 1.3.21 below further elaborate on those circumstances in which reporting on a net basis may be justified.

1.3.20 Governments and government departments and other government entities may administer transactions and otherwise act as agents on behalf of others. These administered and agency transactions may encompass the collection of revenues on behalf of another entity, the transfer of funds to eligible beneficiaries or the safekeeping of monies on behalf of constituents. Examples of such activities may include:

(a) The collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement;

(b) The acceptance and repayment of demand deposits of a financial institution;

(c) Funds held for customers by an investment or trust entity;

(d) Rents collected on behalf of, and paid over to, the owners of properties;

(e) Transfers by a government department to third parties consistent with legislation or other government authority; and

(f) Funds administered by a central entity under the "single account" basis for management of government expenditure (as referred to in paragraph 1.2.8).

1.3.21 In many cases, the cash an entity receives in respect of transactions it administers as an agent for others will be deposited in trust accounts for, or directly in the bank account of, the ultimate recipients of the cash. In these cases, the entity will not control the cash it receives in respect of the transactions it administers and these cash flows will not form part of the cash receipts, cash payments or cash balances of the entity. However, in other cases the cash received will be deposited in bank accounts controlled by the entity acting as an agent and the receipt and transfer of that cash will be reported in the statement of cash receipts and payments of the entity.

1.3.22 In some cases, the amounts of the cash flows arising from administered transactions which "pass-through" the bank account of the reporting entity may be large relative to the entity's own transactions, and control may occur for only a short time before the amounts are transferred to the ultimate recipients. This may also be true for other cash flows including for example, advances made for, and the repayment of:

(a) The purchase and sale of investments; and

(b) Other short-term borrowings, for example, those which have a maturity period of three months or less.

1.3.23 The recognition of these transactions on a gross basis may undermine the ability of the financial statements of some governments and government entities to communicate information about cash receipts and cash payments resulting from the entity's own activities. Accordingly, this Standard permits cash receipts and cash payments to be offset and reported on a net basis in the statement of cash receipts and payments in the circumstances identified in paragraph 1.3.13 above.

Payments by Third Parties on Behalf of the Entity

1.3.24 ***Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments*:**

(a) ***Total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operations; and***

(b) ***Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operation.***

Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.

1.3.25 Where a government manages the expenditure of its individual departments and other entities through a centralized treasury function or a "single account" arrangement, payments are made on behalf of those departments and entities by a central entity after appropriate authorization and documentation from the department. In these cases, the department or other entity does not control cash inflows, cash outflows and cash balances. However, the department or other entity benefits from the payments being made on its behalf, and knowledge of the amount of these payments is relevant to users in identifying the cash resources the government has applied to the entity's activities during the period. Consistent with paragraph 1.3.24(a) above, the department or other entity reports in a separate column on the face of the statement of cash receipts and payments, the amount of payments made by the central entity on its behalf, and the sources and uses of the amount expended sub-classified on a basis appropriate for the department or other entity. These disclosures will enable users to identify the total amount of payments made, the purposes for which they were made and whether, for example, the payments were made from amounts allocated or appropriated from general revenue or from special purpose funds or other sources.

1.3.26 In some jurisdictions, government departments or other entities may be established with their own bank accounts and will control certain cash inflows, cash outflows and cash balances. In these jurisdictions, government directions or instructions may also require one department or other government entity to settle certain obligations of another department or entity, or to purchase certain goods or services on behalf of another department or entity. Consistent with paragraph 1.3.24(a) above the reporting entity reports in a separate column on the face of the statement of cash receipts and payments the amount, sources and uses of such expenditures made on its behalf during the reporting period. This will assist users in identifying the total cash resources of the economic entity which have been applied to the entity's activities during the reporting period, and the sources and uses of those cash resources.

1.3.27 In some cases, third parties which are not part of the economic entity to which the reporting entity belongs purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a national government may fund the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring and transferring to the other government the necessary supplies during the period. Similarly, a national government or independent aid agency may pay a construction company directly for building a road for a particular government rather than providing the funds directly to the government itself. These payments may be made by way of a grant or other aid, or as a loan which is to be repaid. In these cases, the provincial or municipal government does not receive cash (including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute "cash" as defined in this Standard. However, the government benefits from the cash payments being made on its behalf.

1.3.28 Paragraph 1.3.24(b) above requires that an entity report in a separate column on the face of its statement of cash receipts and payments, the amount, sources and uses of expenditures made by third parties which are not part of the economic entity to which it belongs. This will enable users to identify the total cash resources being applied to the entity's activities during the reporting period, and the extent to which those resources are provided from parties which are, and which are not, part of the government to which the reporting entity belongs. In some cases, as at reporting date an entity may not be aware that payments have been made on their behalf by third parties during the reporting period. This may occur where the entity has not been formally advised of the third party payment or cannot otherwise verify that an expected payment has occurred. Paragraph 1.3.24 above requires that third party payments only be disclosed on the face of the statement of cash receipts and payments when during the reporting period the entity has been formally advised that such payments have been made or otherwise verifies their occurrence.

1.3.29 The sub-classifications (or classes) of sources and uses of third party payments which will be disclosed in accordance with paragraphs 1.3.24(a) and 1.3.24(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17.

Accounting Policies and Explanatory Notes

Structure of the Notes

1.3.30 ***The notes to the financial statements of an entity should:***

(a) ***Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and***

(b) ***Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances.***

1.3.31 ***Notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements should be cross referenced to any related information in the notes.***

Selection and Disclosure of Accounting Policies

1.3.32 ***General purpose financial statements should present information that is:***

(a) ***Understandable***;

(b) ***Relevant to the decision-making and accountability needs of users; and***

(c) ***Reliable in that it:***

(i) ***Represents faithfully the cash receipts, cash payments and cash balances of the entity and the other information disclosed;***

(ii) ***Is neutral, that is, free from bias; and***

(iii) ***Is complete in all material respects.***

1.3.33 The quality of information provided in general purpose financial statements determines the usefulness of that statement to users. Paragraph 1.3.32 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 4 of this Standard summarizes the qualitative characteristics of financial reporting. The appendix also notes that the timeliness of information may impact upon both the relevance and reliability of the financial information. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the general purpose financial statement.

1.3.34 ***The accounting policies section of the notes to the financial statements should describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard.***

1.3.35 ***Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.***

1.3.36 In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances. An accounting policy may be significant even if amounts shown for current and prior periods are not material. Paragraph 1.3.4 of this Standard specifies that general purpose financial statements include accounting policies and explanatory notes. Consequently, the requirements of paragraph 1.3.34 above also apply to notes to the financial statements.

1.3.37 ***Where an entity elects to include in its financial statements any disclosures encouraged in Part 2 of this Standard, those disclosures should comply with the requirements of paragraph 1.3.32 above.***

1.3.38 Part 2 of this Standard encourages the disclosure of additional information in notes to the financial statements. Where such disclosures are made, they will need to be understandable and to satisfy the other qualitative characteristics of financial information.

1.4 General Considerations

Reporting Period

1.4.1 ***The general purpose financial statements should be presented at least annually. When, in exceptional circumstances, an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose in addition to the period covered by the financial statements:***

(a) ***The reason(s) for a period other than one year being used; and***

(b) ***the fact that comparative amounts may not be comparable.***

1.4.2 The reporting date is the date of the last day of the reporting period to which the financial statements relate. In exceptional circumstances an entity may be required to, or decide to, change its reporting date to, for example, align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that the reason for the change in reporting date is disclosed and that users are aware that the amounts shown for the current period and the comparative amounts are not comparable.

1.4.3 Normally, the financial statements are consistently prepared covering a one-year period. However, some entities prefer to report, for example, for a 52 week period for practical reasons. This Standard does not preclude this practice, as the resulting financial statements are unlikely to be materially different from that which would be presented for one year.

Timeliness

1.4.4 The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

Authorization Date

1.4.5 ***An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.***

1.4.6 The authorization date is the date on which the financial statements have received approval from the individual or body with the authority to finalize those statements for issue. It is important for users to know when the financial statements were authorized for issue, because the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organizations have the authority to amend the financial statements after issuance. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are Ministers, the government of which the entity forms part, Parliament or an elected body of representatives. If changes are made, the amended financial statements are a new set of financial statements.

Information about the Entity

1.4.7 ***An entity should disclose the following if not disclosed elsewhere in information published with the financial statements:***

(a) ***The domicile and legal form of the entity, and the jurisdiction within which it operates;***

(b) ***A description of the nature of the entity's operations and principal activities;***

(c) ***A reference to the relevant legislation governing the entity's operations, if any; and***

(d) ***The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any).***

1.4.8 The disclosure of the information required by paragraph 1.4.7 will enable users to identify the nature of the entity's operations and gain an understanding of the legislative and institutional environment within which it operates. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.

Restrictions on Cash Balances and Access to Borrowings

1.4.9 ***An entity should disclose in the notes to the financial statements together with a commentary, the nature and amount of:***

(a) ***Significant cash balances that are not available for use by the entity;***

(b) ***Significant cash balances that are subject to external restrictions; and***

(c) ***Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.***

1.4.10 Cash balances held by an entity would not be available for use by the entity when, for example, a controlled entity operates in a country where exchange controls or other legal restrictions apply and the balances are not available for general use by the controlling entity or other controlled entities.

1.4.11 Cash balances controlled by an entity may be subject to restrictions which limit the purpose or timing of their use. This situation often exists when an entity receives a grant or donation which must be used for a specific purpose. It may also exist where, at reporting date, an entity holds in its own bank accounts cash it has collected for other parties in its capacity as an agent but not yet transferred to those parties. Although these balances are controlled by the entity and reported as a cash balance of the entity, separate disclosure of the amount of such items is helpful to readers.

1.4.12 Undrawn borrowing facilities represent a potential source of cash for an entity. Disclosure of the amount of these facilities by significant type allows readers to assess the availability of such cash, and the extent to which the entity has made use of them during the reporting period.

Consistency of Presentation

1.4.13 ***The presentation and classification of items in the financial statements should be retained from one period to the next unless:***

(a) ***A significant change in the nature of the operations of the entity or a review of its financial statements presentation demonstrates that the***

change will result in a more appropriate presentation of events or transactions; or

(b) ***A change in presentation is required by a future amendment to this Standard.***

1.4.14 A major restructuring of service delivery arrangements; the creation of a new, or termination of a major existing, government entity; a significant acquisition or disposal; or a review of the overall presentation of the entity's general purpose financial statements might suggest that the statement of cash receipts and payments or other individual financial statements should be presented differently. For example, a government may dispose of a government savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements identifying a financial institution as a principal activity of the government is unlikely to be relevant.

1.4.15 Only if the revised structure is likely to continue, or if the benefit of an alternative presentation is clear, should an entity change the presentation of its financial statements. When such changes in presentation are made, an entity reclassifies its comparative information in accordance with paragraph 1.4.19. Where an entity complies with this International Public Sector Accounting Standard, a change in presentation to comply with national requirements is permitted as long as the revised presentation is consistent with the requirements of this Standard.

Comparative Information

1.4.16 ***Unless a provision of this Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.***

1.4.17 This Standard requires the presentation of a statement of cash receipts and payments and specifies certain disclosures that are required to be made in that statement and notes thereto. This Standard does not preclude the preparation of additional financial statements. Part 2 of this Standard encourages certain additional disclosures. Where financial statements in addition to the statement of cash receipts and payments are prepared or disclosures encouraged by Part 2 of this Standard are made, the disclosure of comparative information is also encouraged.

1.4.18 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, may be disclosed in the current period. Users benefit from knowing that the uncertainty existed at the last reporting date, and the steps that have been taken during the period to resolve the uncertainty.

1.4.19 ***When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an entity should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.***

1.4.20 Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

Identification of Financial Statements

1.4.21 ***The financial statements should be clearly identified and distinguished from other information in the same published document.***

1.4.22 This Standard applies only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that may be useful to users but that is not the subject of this Standard.

1.4.23 ***Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed and repeated when it is necessary for a proper understanding of the information presented:***

(a) ***The name of the reporting entity or other means of identification;***

(b) ***Whether the financial statements cover the individual entity or the economic entity;***

(c) ***The reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;***

(d) ***The reporting currency; and***

(e) ***The level of precision used in the presentation of figures in the financial statements.***

1.4.24 The requirements in paragraph 1.4.23 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used. In such cases, the items identified in paragraph 1.4.23 are presented frequently enough to ensure a proper understanding of the information given.

1.4.25 Financial statements are often made more understandable by presenting information in thousands or millions of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

1.5 Correction of Errors

1.5.1 ***When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods should be reported by adjusting the cash at the beginning of the period. Comparative information should be restated, unless it is impracticable to do so.***

1.5.2 ***An entity should disclose in the notes to the financial statements the following:***

(a) ***The nature of the error;***

(b) ***The amount of the correction; and***

(c) ***The fact that comparative information has been restated or that it is impracticable to do so.***

1.5.3 Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. When an error is identified in respect of a previous period, the opening balance of cash is adjusted to correct the error and the financial statements, including the comparative information for prior periods, is presented as if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes.

1.5.4 The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.

1.5.5 This Standard requires the presentation of a statement of cash receipts and payments, and does not preclude the presentation of other financial statements.

Where financial statements in addition to the statement of cash receipts and payments are presented, the requirements in paragraphs 1.5.1 and 1.5.2 for correction of errors will also apply to those statements.

1.6 Consolidated Financial Statements

Definitions

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

***Consolidated financial statements** are the financial statements of an economic entity presented as that of a single entity.*

Control of an entity is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

***Controlled entity** is an entity that is under the control of another entity (known as the controlling entity).*

***Controlling entity** is an entity that has one or more controlled entities.*

***Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.*

Economic Entity

1.6.2 The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

1.6.3 Other terms sometimes used to refer to an economic entity include "administrative entity," "financial reporting entity," "consolidated entity" and "group."

1.6.4 An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Scope of Consolidated Financial Statements

1.6.5 ***A controlling entity, other than a controlling entity identified in paragraphs 1.6.7 and 1.6.8, should issue consolidated financial statements which consolidates all controlled entities, foreign and domestic, other than those referred to in paragraph 1.6.6.***

1.6.6 ***A controlled entity should be excluded from consolidation when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.***

1.6.7 ***A controlling entity that is a wholly owned controlled entity need not present consolidated financial statements provided users of such financial***

statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements.

1.6.8 ***A controlling entity that is virtually wholly owned need not present consolidated financial statements provided the controlling entity obtains the approval of the owners of the minority interest.***

1.6.9 Users of the financial statements of a government or other public sector controlling entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.

1.6.10 Paragraph 1.3.4 of this Standard requires that a reporting entity prepare a statement of cash receipts and payments. Consistent with the requirements of paragraph 1.6.5 above, the statement of cash receipts and payments prepared by a government or other public sector reporting entity which is a controlling entity, will consolidate the cash receipts, cash payments and cash balances of all the entities it controls. The note disclosures required by Part 1 of this Standard will also be presented on a consolidated basis. Appendix 5 of this Statement illustrates the application of the concept of control in determining the financial reporting entity.

1.6.11 This Standard does not preclude the preparation of financial statements additional to the statement of cash receipts and payments. Those additional statements may, for example, disclose additional information about receipts and payments related to certain fund groups or provide additional details about certain types of cash flows. Part 2 of this Standard identifies additional disclosures that an entity is encouraged to make. The additional statements and disclosures will also report consolidated information where appropriate.

1.6.12 For financial reporting purposes, the reporting entity (financial reporting entity) may consist of a number of controlled entities including government departments, agencies and Government Business Enterprises (GBEs). Determining the scope of the financial reporting entity can be difficult due to the large number of potential entities. For this reason, financial reporting entities are often determined by legislation. In some cases, the financial reporting entity required by this Standard may differ from the reporting entity specified by legislation and additional disclosures may be necessary to satisfy the legislative reporting requirements.

1.6.13 A controlling entity that is itself wholly owned by another entity (such as a government agency which is wholly owned by the government), is not required to present consolidated financial statements when such statements are not required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, in the public sector, many controlling entities that are either wholly owned or virtually wholly owned represent key sectors or activities of a government. In these cases, the information needs of certain users may not be served by the presentation of a consolidated financial statement at a whole-of-government level alone, and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In many jurisdictions, governments have acknowledged this and have legislated the financial reporting requirements of such entities.

1.6.14 In some jurisdictions, a controlling entity which is virtually wholly owned by another entity (such as a government enterprise which has some minor ownership from the private sector) is also exempted from presenting consolidated financial statements if the controlling entity obtains the approval of the owners of the minority interest. Virtually wholly owned is often taken to mean that the controlling entity owns 90% or more of the voting power. For the purpose of this Standard, the minority interest is that part of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.

1.6.15 In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare a consolidated financial statement. Where there is no requirement for an intermediate controlling entity to prepare consolidated financial statements but users of general purpose financial statements of the economic entity are likely to exist, intermediate controlling entities are encouraged to prepare and publish such a statement.

Consolidation Procedures

1.6.16 ***The following consolidation procedures apply:***

(a) ***Cash balances and cash transactions between entities within the economic entity should be eliminated in full;***

(b) ***When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than three months; and***

(c) ***Consolidated financial statements should be prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of***

the items in the consolidated financial statements to which the different accounting policies have been applied.

1.6.17 The consolidation procedures outlined in paragraph 1.6.16 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit.

1.6.18 The consolidated financial statements should only reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a government department may sell a physical asset to another government department. Because the net cash effect on the whole-of-government reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the whole-of-government reporting entity. A government entity may hold funds with a public sector financial institution. These balances would be eliminated at the whole-of-government level because they represent balances within the economic entity. Similarly, a GBE operating overseas may make a payment to a government department which remains in transit at the reporting date. In this case, failure to eliminate the transaction would result in understating the cash balance of the economic entity and overstating its cash payments.

1.6.19 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

Consolidation Disclosures

1.6.20 ***The following disclosures should be made in consolidated financial statements:***

(a) ***A listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity); and***

(b) ***The reasons for not consolidating a controlled entity.***

Transitional Provisions

1.6.21 Controlling entities that adopt this Standard may have large numbers of controlled entities with significant volumes of transactions between those entities. Accordingly, it may be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 1.8.2 provides relief, during the transitional period, from the requirement to eliminate all cash balances and transactions between entities within the economic entity. However, paragraph 1.8.3 requires that entities which apply the transitional provision should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.

1.7 Foreign Currency

Definitions

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

***Closing rate** is the spot exchange rate at the reporting date.*

***Exchange difference** is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.*

***Exchange rate** is the ratio for exchange of two currencies.*

***Foreign currency** is a currency other than the reporting currency of an entity.*

***Reporting currency** is the currency used in presenting the financial statements.*

Treatment of Foreign Currency Cash Receipts, Payments and Balances

1.7.2 ***Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.***

1.7.3 ***Cash balances held in a foreign currency should be reported using the closing rate.***

1.7.4 ***The cash receipts and cash payments of a foreign controlled entity should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the receipts and payments.***

1.7.5 ***An entity should disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.***

1.7.6 ***When the reporting currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.***

1.7.7 Governments and government entities may have transactions in foreign currencies such as borrowing an amount of foreign currency or purchasing goods and services where the purchase price is designated as a foreign currency amount. They may also have foreign operations and transfer cash to and receive cash from those foreign operations. In order to include foreign currency transactions and foreign operations in financial statements the entity must express cash receipts, payments and balances in reporting currency terms.

1.7.8 Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of cash receipts and payments in order to reconcile cash at the beginning and the end of the period. This amount is presented separately from cash receipts and payments and includes the differences, if any, had those cash receipts payments and balances been reported at end-of-period exchange rates.

1.8 Effective Date of Sections 1 to 7 of Part 1 and Transitional Provisions

Effective Date

1.8.1 ***Sections 1 to 7 of Part 1 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after 1 January 2004. Earlier application is encouraged.***

Transitional Provisions—Consolidated Financial Statements

1.8.2 ***Entities are not required to comply with the requirement in paragraph 1.6.16(a) concerning the elimination of cash balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.***

1.8.3 ***Where entities apply the transitional provision in paragraph 1.8.2, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.***

1.9 Presentation of Budget Information in Financial Statements

Definitions

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

<u>Accounting basis</u> means the accrual or cash basis of accounting as defined in the accrual basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.

<u>Annual budget</u> means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

<u>Appropriation</u> is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

Approved budget ***means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period.***

Budgetary basis ***means the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.***

Comparable basis ***means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.***

Final budget ***is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period.***

multiyear budget ***is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.***

Original budget ***is the initial approved budget for the budget period.***

Approved Budgets

1.9.2 An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multiyear budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information which may be in the form of a forecast, a projection or a combination of both – for example, a one year forecast plus a five year projection.

1.9.3 In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget and in others it may be the final budget.

1.9.4 If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

Original and Final Budget

1.9.5 The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances and include outstanding purchase orders and contracts where goods or services have not yet been received.

1.9.6 Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, war or natural disasters. In addition, there may be a shortfall in budgeted receipts during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.

Actual Amounts

1.9.7 This Standard uses the term actual or actual amounts to describe the amounts that result from execution of the budget. In some jurisdictions, budget out-turn, budget execution or similar terms may be used with the same meaning as actual or actual amounts.

Presentation of a Comparison of Budget and Actual Amounts

1.9.8 ***Subject to the requirements of paragraph 1.9.17, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:***

(a) ***The original and final budget amounts;***

(b) ***The actual amounts on a comparable basis; and***

(c) ***By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.***

Scope

1.9.9 This Standard applies to all entities that are required to, or elect to, make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or include comparisons with, approved budgets which are not made publicly available.

1.9.10 In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of a government or other public sector entity. This may occur where, for example, a government's financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Comparison of Budget and Actual Amounts

1.9.11 Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget, which is made publicly available, will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the "variance" in accounting), may also be presented in the financial statements for completeness.

1.9.12 An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

1.9.13 An entity may be required, or may elect, to make publicly available its original budget, its final budget or both its original and final budget. In circumstances where both original and final budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 1.9.8(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and final budget to focus on compliance with the final budget.

1.9.14 In many cases, the final budget amount and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 1.9.23 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. That disclosure, together with the disclosures required by paragraph 1.9.8 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

1.9.15 Management discussion and analysis, operations review or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 1.9.8(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the reports or documents in which the explanation can be found.

1.9.16 Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 1.9.8 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole-of-government reporting entity, the disclosures required by paragraph 1.9.8 will be made only in respect of the general government sector of the government.

Presentation

1.9.17 ***An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.***

1.9.18 Comparisons of budget and actual amounts may be presented in a separate financial statement ("statement of comparison of budget and actual amounts" or a similarly titled statement). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the statement of cash receipts and payments presented in accordance with this Standard. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

1.9.19 When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented. In these cases, to ensure that readers do not misinterpret financial information which is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

Level of Aggregation

1.9.20 Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common budget heads, budget classifications or budget headings for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget document(s).

1.9.21 In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as identified in paragraph 1.3.32 of this Standard.

1.9.22 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross reference to such documents.

Changes from Original to Final Budget

1.9.23 ***An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors, either:***

(a) ***By way of note disclosure in the financial statements; or***

(b) ***In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.***

1.9.24 The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include an explanation of changes between the original and final budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

Comparable Basis

1.9.25 ***All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.***

1.9.26 The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash or other basis), same classification basis and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

1.9.27 Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 1.9.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

1.9.28 Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some, albeit rare, cases a government or government agency may adopt the cash basis for its financial statements and the accrual basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report cash receipts and payments and balances thereof. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes –

for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public and other users on a relevant and timely basis.

1.9.29 In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector and encompass only entities fulfilling the "primary" or "non-market" functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government.

1.9.30 In statistical reporting models, the general government sector may comprise national, state/provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its financial statements and develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental entities. However, where a national government does not control state or local governments, its financial statement will not consolidate state/provincial or local governments. Rather, separate financial statements are prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Multiyear Budgets

1.9.31 Some governments and other entities approve and make publicly available multiyear budgets, rather than separate annual budgets. Conventionally, multiyear budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multiyear budget for that component period. In some cases, the multiyear budget provides for a roll forward of unused appropriations in any single year.

1.9.32 Governments and other entities with multiyear budgets may take different approaches to determining their original and final budget depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial budget are legally authorized to be spent in the second year, the "original" budget for the second year period will be increased for these "carry over" amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in identifying which amounts are attributable to each annual period for determining the annual budget for the purposes of this Standard. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the "original" budget for the second annual period and that budget together with any amendments thereto would form the final budget for the second year. Part 2 of this Standard encourages disclosure of the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

1.9.33 ***An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.***

1.9.34 There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows plus certain accruals and commitments, while the financial statements report cash receipts and cash payments.

1.9.35 Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, expenditures by economic nature (compensation of employees, supplies and consumables, grants and transfers, etc.) or function (health, education, etc.). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, students graduating from tertiary education or surgical operations performed by hospital emergency services), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education or health) may be approved separately from a capital budget for capital outlays (for example, infrastructure or buildings).

1.9.36 Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.

1.9.37 ***An entity shall disclose in notes to the financial statements the period of the approved budget.***

1.9.38 Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multiyear periods. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the financial statements will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.

1.9.39 ***An entity shall identify in notes to the financial statements the entities included in the approved budget.***

1.9.40 Paragraph 1.6.5 of this Standard requires controlling entities to prepare and present consolidated financial statements which encompass budget-dependent entities and GBEs controlled by the government. However, as noted in paragraph 1.9.29, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph 1.9.25, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the financial statements.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

1.9.41 ***The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.9.25 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.***

1.9.42 Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the financial statements can usefully be classified into the following:

(a) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the accrual basis or modified cash basis and the financial statements are prepared on the cash basis;

(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

(c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

1.9.43 The reconciliation required by paragraph 1.9.41 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the total cash receipts and total cash payments recognized in the statement of cash receipts and payments. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

1.9.44 For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only non-commercial activities of the entity, or may be a multiyear budget. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis.

1.9.45 ***The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.***

1.9.46 This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

Effective Date of Section 1.9 of Part 1

1.9.47 ***An entity shall apply Section 1.9 of this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after January 1, 2009. Earlier application is encouraged. If an entity applies Section 1.9 of this Standard for a period beginning before January 1, 2009 it shall disclose that fact.***

1.9.48 When an entity adopts this Standard subsequent to the effective date of Section 1.9 as specified in paragraph 1.9.47, paragraphs 1.9.1 to 1.9.46 of this Standard apply to the entity's annual financial statements covering periods beginning on or after the date of adoption.

1.10 Recipients of External Assistance

Definitions

1.10.1 ***The following terms are used in this Standard with the meaning specified:***

Assigned External Assistance means any external assistance, including external assistance grants, technical assistance, guarantees or other assistance, received by an entity that is assigned by the recipient to another entity.

Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

Non-Governmental Organizations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organizations or to individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.

Re-Lent External Assistance Loans means external assistance loans received by an entity that are lent by the recipient to another entity.

1.10.2 Different organizations may use different terminology for external assistance or classes of external assistance. For example, some organizations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases, preparers, auditors and users of general purpose financial statements will need to consider the substance of the definitions rather than just the terminology in determining whether the requirements of this Standard apply.

External Assistance

1.10.3 External assistance is defined in paragraph 1.10.1 as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Official resources as defined in paragraph 1.10.1 does not encompass assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement. Assistance received from NGOs, whether in the form of cash donations or third party settlements, will be presented in the financial statements and disclosed in explanatory notes in accordance with the requirements of Sections 1.1 to 1.9 of Part 1 of this Standard. Paragraph 2.1.64 encourages, but does not require, application of the disclosures required by paragraphs 1.10.1 to 1.10.27 to assistance received from NGO's where practicable.

1.10.4 NGOs as defined in paragraph 1.10.1 are foreign or national agencies established independent of control by any government. In some rare cases, it may not be clear whether the donor organization is a bilateral or multilateral external assistance agency or a NGO, and therefore independent of control by any government. Where such a donor organization provides, or commits to provide, assistance under the terms of a binding agreement, the distinction between official resources as defined in this Standard and resources provided by a NGO may become blurred. In these cases, professional judgment will need to be exercised to determine whether the assistance received satisfies the definition of external assistance and, therefore, is subject to the disclosure requirements specified in this section.

Official Resources

1.10.5 Official resources are defined in paragraph 1.10.1 to be resources committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation does not satisfy the definition of official resources, and therefore is not external assistance.

External Assistance Agreements

1.10.6 Governments seeking particular forms of external assistance may participate in formal meetings or rounds of meetings with donor organizations. These may include meetings to discuss the government's macroeconomic plans and its development assistance needs, or bilateral discussions at governmental level regarding trade finance, military assistance, balance of payments and other forms of assistance. They may also include separate meetings to consider the country's emergency assistance needs as those needs arise. Initial discussions may result in statements of intent or pledges which are not binding on the government or the external assistance agency. However, subsequently binding agreements may be set in place to make available assistance loans or grants provided restrictions on access to the funds, if any, are met and agreed conditions or covenants are adhered to by the recipient entity.

1.10.7 External assistance agreements may provide for the entity to:

(a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;

(b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or

(c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External assistance agreements may also include the provision of goods or services in-kind to the recipient.

External Assistance Received

1.10.8 ***The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period.***

1.10.9 ***The entity should disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity, showing separately:***

(a) ***Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and***

(b) ***Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs.***

These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.

1.10.10 ***Where external assistance is received from more than one provider, the significant classes of providers of assistance should be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.***

1.10.11 ***Where external assistance is received in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants should be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.***

1.10.12 External assistance may be provided directly to the reporting entity in the form of cash. Alternatively, a third party may provide external assistance by settling an obligation of the reporting entity or purchasing goods and services for the benefit of the reporting entity. In some cases:

(a) The third party may be part of the economic entity to which the reporting entity belongs – this will occur where, for example, external assistance in the form of cash is provided for the benefit of a program run by a particular department in a jurisdiction where the government manages the expenditure of its individual departments and other entities through a centralized treasury function or a "single account" arrangement. In these cases, the treasury or other central agency receives the external assistance and makes payments of amounts provided by way of external assistance on behalf of the department, after appropriate authorization and documentation from the department; or

(b) The third party may not be part of the economic entity to which the reporting entity belongs – this will occur where, for example, an aid agency makes a debt repayment to a regional development bank on behalf of a government agency, pays a construction company directly for building a road for a particular government agency rather than providing the funds directly to the government agency itself, or funds the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring on behalf of the government the necessary supplies during the period.

1.10.13 Disclosure of the amount of external assistance received in the form of cash and in the form of third party payments made on behalf of the entity will indicate the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance. Consistent with the requirements of paragraph 1.3.24 of this Standard, external assistance paid by third parties should only be disclosed in the statement of Cash Receipts and Payments when the reporting entity has been formally advised that such payments have been made during the reporting period or otherwise verifies their occurrence. Disclosure of the significant classes of external assistance received is also encouraged, but not required (see paragraph 2.1.66).

1.10.14 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organizations, national assistance organizations or other major classes as appropriate for the reporting entity will identify the extent of the entity's dependence on particular classes of providers and will be relevant to an assessment of the sustainability of the assistance. This Standard does not require the disclosure of the identity of each provider of assistance or the amount of assistance each provides. However, disclosure of the amount provided by each provider in the currency provided is encouraged (see paragraph 2.1.70).

1.10.15 External assistance is often denominated in a currency other than the reporting currency of the entity. Cash receipts, or payments made by third parties on behalf of the entity arising from transactions in a foreign currency, will be recorded or reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts or payments in accordance with paragraph 1.7.2 of this Standard.

1.10.16 National governments usually retain the exclusive right to enter into external assistance agreements with multilateral or bilateral external assistance agencies. In many of these cases, the project or activity is implemented by another entity. The national government may re-lend or assign the funds received to the other entity. The terms and conditions of the re-lent or assigned funds may be the same as received from the external assistance agency or may be different than initially received. In some cases, a small fee or interest spread is charged to cover the national government's administrative costs. An entity which enters into an external assistance agreement and passes the benefits as well as the terms and conditions of the agreement through to another entity by way of a subsidiary agreement will recognize or report the external assistance as it is received. It will also record payments to the second entity in accordance with its normal classification of payments adopted in the financial statements.

1.10.17 Where the initial recipient of a loan or grant passes the proceeds and the terms and conditions of the loan or grant through to another entity, the initial entity may simply be administering the loan or grant on behalf of the end user. Netting of transactions where the terms and conditions are substantially the same may be appropriate in the financial statements of the administrator, in accordance with the provisions of paragraph 1.3.13 of this Standard.

Undrawn External Assistance

1.10.18 ***The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at***

reporting date to fund future operations when, and only when, the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately in the reporting currency:

(a) ***Total external assistance loans; and***

(b) ***Total external assistance grants.***

Significant terms and conditions that determine, or affect access to, the amount of the undrawn assistance should also be disclosed.

1.10.19 The amount of external assistance currently committed under a binding agreement(s) but not yet drawn may be significant. In some cases, the amount of the assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. Where such undrawn balances are provided in a foreign currency, opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the reporting dates in accordance with the provisions of paragraph 1.7.3 of this Standard.

1.10.20 In some cases, a donor entity may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods – for example, this may occur where the amount of assistance to be provided is dependent on the annual budget of the donor nation or other sources of funding that may be secured by the recipient. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date – for example, this may occur in respect of balance of payment assistance to be provided on achievement of specified performance criteria, or emergency assistance to be provided subject to the amount of assistance provided by other agencies. In these cases, disclosure of the undrawn amounts is not made. In some cases, professional judgment may need to be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance is highly likely.

Receipt of Goods or Services

1.10.21 ***Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined.***

1.10.22 Paragraph 2.1.90 of this Standard encourages an entity to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services. Paragraph 1.3.38 of this Standard explains that where encouraged disclosures are included in notes to the financial statements, they will need to be understandable and to satisfy the other qualitative characteristics of financial information. Where an entity elects to make such disclosures, it is required to disclose in the notes to the financial statements the basis on which that value is determined. Such disclosure will enable users to assess whether, for example, the value is determined by reference to donor valuation, fair value determined by reference to prices in the world or domestic markets, by management assessment or on another basis.

Disclosure of Debt Rescheduled or Cancelled

1.10.23 ***An entity should disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions.***

1.10.24 An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt or cancellation of the debt. Disclosure of the amount of external assistance debt rescheduled or cancelled, together with any related terms and conditions, will alert users of the financial statements that such renegotiation or cancellation has occurred. This will provide useful input to assessments of financial condition of the entity and changes therein.

Disclosure of Non Compliance with Significant Terms and Conditions

1.10.25 ***An entity should disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided. The amount of external assistance cancelled or to be returned should also be disclosed.***

1.10.26 External assistance agreements will usually include terms and conditions that must be complied with for ongoing access to assistance funds, as well as some procedural terms and conditions.

1.10.27 The disclosures required by paragraph 1.10.25 will enable readers to identify the instances of non compliance that have adversely affected the funds that are available to support the entity’s future operations. It will also provide input to assessments of whether re-establishment of compliance with the agreement may occur in the future. Disclosure of non compliance with significant terms and conditions in other cases is also encouraged, but not required (see paragraph 2.1.83).

Effective Date of Section 1.10 and Transitional Provisions

1.10.28 ***Paragraphs 1.10.1 to 1.10.34 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after 1 January 2009.***

1.10.29 ***Entities are not required to disclose comparative figures for amounts disclosed in accordance with paragraphs 1.10.1 to 1.10.27 in the first year of application of paragraphs 1.10.1 to 1.10.34 of this Standard.***

1.10.30 ***Entities are not required to disclose separately in the notes to the financial statements the balance of undrawn external assistance as specified in paragraph 1.10.18 for a period of two years from the date of first application of paragraphs 1.10.1 to 1.10.34 of this Standard.***

1.10.31 ***When an entity applies the transitional provisions in paragraph 1.10.29 and 1.10.30, it should disclose that it has done so.***

1.10.32 In the first year of application of the requirements of paragraphs 1.10.1 to 1.10.27 of this Standard, an entity may not have readily available, or reasonable access to, the information necessary to enable it to satisfy the requirement to disclose comparative information. It may also not have the information necessary to enable it to disclose the closing balance of undrawn external assistance as required by paragraph 1.10.18.

1.10.33 Paragraph 1.4.16 of this Standard provides relief from the requirement to disclose comparative information for the previous period on initial application of the Standard. Some entities may have adopted the Cash Basis IPSAS prior to its amendment to include the requirements relating to disclosure of information by recipients of external assistance as specified in paragraphs 1.10.1 to 1.10.27. Paragraph 1.10.29 provides relief from the requirement to disclose comparative information about external assistance as specified in paragraphs 1.10.1 to 1.10.27 in this Standard in the first year of application of those paragraphs. Paragraph 1.10.30 provides relief from the requirement to apply paragraph 1.10.18 for a period of two years from initial application of that paragraph.

1.10.34 To ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 1.10.31 requires that entities that make use of these transitional provisions disclose that they have done so.

Appendix 1

Illustration of the Requirements of Part 1 of the Standard

This Appendix is illustrative only and does not form part of the Standard. It illustrates an extract of a Statement of Receipts and Payments and relevant note disclosures for a government that has received external assistance loans and grants during the current and preceding periods. Its purpose is to assist in clarifying the meaning of the standards by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting for:

(a) ***A Government*** *which is a recipient of external assistance;*

(b) ***A Government Entity*** *which controls its own bank account, and is not a recipient of external assistance; and*

(c) ***A Government Department*** *which operates under a "single account" system such that a central entity administers cash receipts and payments on behalf of the Department, and is not a recipient of external assistance.*

APPENDIX 1A

CONSOLIDATED FINANCIAL STATEMENTS FOR GOVERNMENT A

CONSOLIDATED STATEMENT OF CASH RECEIPTs AND PAYMENTs FOR YEAR ENDED

DECEMBER 31, 200X

(Receipts Only)

(in thousands of currency units)	Note	2000X Receipts/(Payments) controlled by entity	2000X Payments by third parties	200X–1 Receipts/(Payments) controlled by entity	200X–1 Payments by third parties
RECEIPTS					
Taxation					
Income tax		X	–	X	–
Value-added tax		X	–	X	–
Property tax		X	–	X	–
Other taxes		X	–	X	–
		X	–	X	–
External Assistance	10				
Multilateral Agencies		X	X	X	X
Bilateral Agencies		X	X	X	X
		X	X	X	X
Other Grants and Aid		X	X	X	X
Other Borrowings					
Proceeds from borrowing	3	X	X		
Capital Receipts					
Proceeds from disposal of plant and equipment		X	-	X	–
Trading Activities					
Receipts from trading activities		X	-	X	–
Other receipts	4	X	X	X	X
Total receipts		**X**	**X**	**X**	**X**

(in thousands of currency units)	Note	200X Receipts/ (Payments) controlled by entity	200X Payments by third parties	200X–1 Receipts/ (Payments) controlled by entity	200X–1 Payments by third parties
PAYMENTS					
Operations					
Wages, salaries and employee benefits		(X)	(X)	(X)	(X)
Supplies and consumables		(X)	(X)	(X)	(X)
		(X)	(X)	(X)	(X)
Transfers					
Grants		(X)	–	(X)	–
Other transfer payments		(X)	–	(X)	–
		(X)	–	(X)	–
Capital Expenditures					
Purchase/construction of plant and equipment		(X)	(X)	(X)	(X)
Purchase of financial instruments		(X)	–	(X)	–
		(X)	(X)	(X)	(X)
Loan and Interest Repayments					
Repayment of borrowings		(X)	–	(X)	–
Interest payments		(X)	–	(X)	–
		(X)	–	(X)	–
Other payments	5	(X)	(X)	(X)	(X)
Total payments		**(X)**	**(X)**	**(X)**	**(X)**
Increase/(Decrease) in Cash		**X**	**–**	**X**	**–**
Cash at beginning of year	2	**X**	**N/A***	**X**	**N/A**
Increase/(Decrease) in Cash		**X**	**N/A**	**X**	**N/A**
Cash at end of year	*2*	X	N/A	X	**N/A**

* N/A = Not applicable.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For Government X for the Year Ended December 31, 200X

Budget Approved on the Cash Basis (Classification of Payments by Functions)

(in thousands of currency units)	*Actual Amounts	Final Budget	Original Budget	***Difference: Final Budget and Actual*
CASH INFLOWS				
Taxation	X	X	X	X
Aid agreements				
International agencies	X	X	X	X
Other grants and aid	X	X	X	X
Proceeds: borrowing	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X
Trading activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
CASH OUTFLOWS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOWS	**X**	**X**	**X**	**X**

* Actual amounts encompass both cash and third party settlements.

** The "Difference…" column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared to provide details of amounts included in the consolidated statement of cash receipts and payments: for example, to disclose information by major fund groups or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

STATEMENT OF CASH RECEIPTS BY FUND CLASSIFICATION

(in thousands of currency units)	200X Receipts controlled by entity	200X–1 Receipts controlled by entity
RECEIPTS		
Consolidated Funds	X	X
Special Funds	X	X
Trading Funds	X	X
Loans	X	X
Total receipts	**X**	**X**

PROCEEDS OF BORROWINGS

(in thousands of currency units)	Note	200X Cash Receipts controlled by entity	200X Resulting from Payments by third parties	200X–1 Receipts controlled by entity	200X–1 Resulting from Payments by third parties
BORROWINGS					
Domestic Commercial Institution		X	–	X	–
Offshore Commercial Institution		X	–	X	–
Development Banks and Similar Lending Agencies		X	X	X	X
Total borrowings	3	**X**	**X**	**X**	**X**

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF GOVERNMENT

	200X		200X–1	
(in thousands of currency units)	**Payments controlled by entity**	**Payments by third parties**	**Payments controlled by entity**	**Payments by third parties**
PAYMENTS/EXPENDITURE – Operating Account				
Education Services	X	X	X	X
Health Services	X	X	X	X
Social Security and Welfare	X	–	X	–
Defense	X	–	X	–
Public Order and Safety	X	X	X	X
Recreation, Culture and Religion	X	X	X	X
Economic Services	X	–	X	–
Other	X	X	X	X
Total payments/expenditure	**X**	**X**	**X**	**X**
PAYMENTS/EXPENDITURE – Capital Account				
Education Services	X	X	X	X
Health Services	X	X	X	X
Social Security and Welfare	X	–	X	–
Defense	X	–	X	–
Public Order and Safety	X	X	X	X
Recreation, Culture and Religion	X	X	X	X
Other	X	X	X	X
Total payments/expenditure	**X**	**X**	**X**	**X**
Total Operating and Capital Accounts	**X**	**X**	**X**	**X**

PUBLIC SECTOR ENTITY—WHOLE-OF-GOVERNMENT

Notes to the Financial Statements

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting.*

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for the national government of Country A. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises:

(i) Central government ministries; and

(ii) Government business enterprises and trading funds that are under the control of the entity.

The consolidated financial statements include all entities controlled during the year. A list of significant controlled entities is shown in Note 7 to the financial statements.

Payments by Third Parties

The government also benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the period by way of loans and contributions. The payments made by the third parties do not constitute cash receipts or payments by the government but do benefit the government. They are disclosed in the *Payments by third parties* column in the Consolidated Statement of Cash Receipts and Payments and other financial statements.

Reporting currency

The reporting currency is (currency of Country A).

2. Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and investments in short-term money market instruments.

Cash included in the statement of cash receipts and payments comprise the following amounts:

(in thousands of currency units)	**200X**	**200X–1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

Included in the amount stated above is X currency units provided by the International Agency XX that is restricted to the construction of road infrastructure.

3. Borrowings

Borrowings comprise cash inflows from banks, similar lending agencies and commercial institutions and amounts owing in respect of non-cash assistance provided by third parties.

4. Other Receipts

Included in other receipts are fees, fines, penalties and miscellaneous receipts.

5. Other Payments/Expenditure

Included in other payments are dividends, distributions paid, legal settlements of law-suits and miscellaneous payments.

6. Undrawn Borrowing Facilities Other than Undrawn External Assistance

(See note 10 for undrawn external assistance)

(in thousands of currency units)	**200X**	**200X–1**
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.1.0X	X	X
Additional loan facility	X	X
Total available	X	X
Amount drawn	(X)	(X)
Facility closure/cancellations	(X)	(X)
Undrawn borrowing facilities at 31.12.0X.	X	X

(in thousands of currency units)	**200X**	**200X–1**
Undrawn Borrowing Facilities		
Commercial Financial Institutions	X	X
Total undrawn borrowing facilities	X	X

7. <u>Significant Controlled Entities</u>

Entity	Jurisdiction
Entity A	X
Entity B	X
Entity C	X
Entity D	X

8. <u>Authorization Date</u>

The financial statement was authorized for publication on XX *Month* 200X+1 by Mr YY, the Treasurer of Country A.

9. <u>Original and Final Approved Budget and Comparison of Actual and Budget Amounts</u>

The approved budget is developed on the same accounting basis (cash basis), same classification basis, and for the same period (from 1 January 200X to 31 December 200X) as for the financial statements. It encompasses the same entities as the consolidated financial statement – these are identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences.

<u>Alternative Note 9 when budget and financial statements are prepared on a different basis</u>

9. <u>Original and Final Approved Budget and Comparison of Actual and Budget Amounts</u>

The budget is approved on a modified cash basis by functional classification. The approved budget covers the fiscal period from January 1, 200X to December 31, 200X and includes all entities within the general government sector. The general government sector includes all government departments – these are identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.

The budget and the accounting bases differ. The financial statements for the whole-of-government are prepared on the cash basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements which include all controlled entities, including government business enterprises for the fiscal period from January 1, 20XX to December 31 20XX. The budget is approved on the modified cash basis by functional classification and deals only with the general government sector which excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the statement of cash receipts and payments were adjusted to be consistent with the modified cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the statement of cash receipts and payments for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises and other entities) were made to express the actual amounts on a comparable basis to the final approved budget.

A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total cash receipts and total cash payments reported in the statement of cash receipts and payments for the year ended December 31, 20XX is presented below.

	Total inflows	**Total outflows**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**
Basis Differences	X	X
Timing Differences	–	–
Entity Differences	X	X
Total Cash receipts	**X**	
Total Cash Payments		**X**

The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector and the financial statements consolidate all entities controlled by the government. There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the modified cash basis.

This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

10. External Assistance

Payments by Third Parties

All payments made by third parties are made by third parties which are not part of the economic entity.

External Assistance

External assistance was received in the form of loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilized. The following amounts are presented in the reporting currency of the entity.

	200X Total	200X–1 Total
Loan Funds		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	X	X
Grant Funds		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	X	X
Total External Assistance	**X**	**X**

Non Compliance with significant terms and conditions and rescheduled and cancelled debt

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of external assistance loans.

External assistance grants of X domestic currency units were cancelled during the reporting period. The cancellation resulted from over estimation of the cost of specified development projects and consequentially expenditure of an amount less than that committed for the period by the donor entity.

Undrawn External Assistance

Undrawn external assistance loans and grants at reporting date are amounts specified in a binding agreement which relate to funding for projects currently under development, where conditions have been satisfied, and their ongoing satisfaction is highly likely, and the project is anticipated to continue to completion.

	Loans 200X	Grants 200X	Loans 200X–1	Grants 200X–1
Closing balance in reporting currency	X	X	X	X

The significant terms and conditions that determine or affect access to the amount of undrawn assistance relate to the achievement of the following specified construction targets for development of medical and education infrastructure: (Entity to identify significant construction targets).

APPENDIX 1B

GOVERNMENT ENTITY AB

(THIS ENTITY CONTROLS ITS OWN BANK ACCOUNT AND ALSO BENEFITS FROM PAYMENTS MADE BY THIRD PARTIES.)

CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS

FOR YEAR ENDED DECEMBER 31, 200X

	Note	200X			200X–1		
(in thousands of currency units)		**Receipts/ (Payments) controlled by entity**	**Payments by other government entities**	**Payments by external third parties**	**Receipts/ (Payments) controlled by entity**	**Payments by other government entities**	**Payments by external third parties**
RECEIPTS							
Authorized allocations/Appropriations		X	X	–	X	X	–
Other receipts		X	–	–	X	–	–
Grants/Assistance		–	–	X	–	–	X
Total receipts		**X**	**X**	**X**	**X**	**X**	**X**
PAYMENTS							
Wages, salaries and employee benefits		(X)	–	–	(X)	–	–
Rent		(X)	(X)	–	(X)	(X)	–
Capital Expenditure		(X)	(X)	(X)	(X)	(X)	(X)

	Note	200X			200X–1		
(in thousands of currency units)		**Receipts/ (Payments) controlled by entity**	**Payments by other government entities**	**Payments by external third parties**	**Receipts/ (Payments) controlled by entity**	**Payments by other government entities**	**Payments by external third parties**
Transfers	3	(X)	(X)	(X)	(X)	(X)	(X)
Total payments		**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**
Increase/(Decrease) in Cash		**X**	**X**	**(X)**	**X**	**(X)**	**X**
Cash at beginning of year	2	**X**	**N/A***	**N/A**	**X**	**N/A**	**N/A**
Increase/(Decrease) in Cash		**X**	**N/A**	**N/A**	**X**	**N/A**	**N/A**
Cash at end of year	2	**X**	**N/A**	**N/A**	**X**	**N/A**	**N/A**

* N/A = Not Applicable.

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

	Note	200X			200X–1		
(in thousands of currency units)		**Payments controlled by entity**	**Payments by other government entities**	**Payments by external third parties**	**Payments controlled by entity**	**Payments by other government entities**	**Payments by external third parties**
PAYMENTS/EXPENDITURE							
Program I		(X)	(X)	(X)	(X)	(X)	(X)
Program II		(X)	(X)	(X)	(X)	(X)	(X)
Program III		(X)	(X)	(X)	(X)	(X)	(X)
Program IV		(X)	(X)	(X)	(X)	(X)	(X)
Other payments/expenditure		(X)	(X)	(X)	(X)	(X)	(X)
Total payments/expenditure		**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**

GOVERNMENT ENTITY AB

Notes to the Financial Statements

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with Cash Basis IPSAS "Financial Reporting Under the Cash Basis of Accounting."

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for a public sector entity (Government Entity AB). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises Government Entity AB and its controlled entities. Government Entity AB is controlled by the national government of Country A.

Government Entity AB's principal activity is to provide [identify type of] services to constituents. The Entity controls its own bank account. Appropriations and other cash receipts are deposited into its bank accounts.

Payments by other government entities

The Entity benefits from payments made by its controlling entity (Government A) and other government entities on its behalf.

Payments by external third parties

The Entity also benefits from payments made by external third parties (entities external to the economic entity) for goods and services. These payments do not constitute cash receipts or payments of the Entity, but do benefit the Entity. They are disclosed in the *Payments by external third parties* column in the Statement of Cash Receipts and Payments and in other financial statements.

Reporting currency

The reporting currency is (currency of Country A).

2. Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents comprise balances with banks and investments in short-term money market instruments.

Amounts appropriated to the Entity are deposited in the Entity's bank account and are controlled by the entity. All borrowings are undertaken by a central finance entity.

Receipts from exchange transactions are deposited in trading fund accounts controlled by the Entity. They are transferred to consolidated revenue at year end.

Cash included in the statement of cash receipts and payments comprise the following amounts:

(in thousands of currency units)	**200X**	**200X–1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

3. Transfers

Amounts are transferred to eligible recipients in accordance with operating mandate and authority of the entity.

4. Significant Controlled Entities

Entity	**Jurisdiction**
Entity A	X
Entity B	X

5. Authorization Date

The financial statements were authorized for issue on XX *Month* 200X+1 by Mr YY, Minister of XXXXX for Entity AB.

APPENDIX 1C

GOVERNMENT DEPARTMENT AC

(THE GOVERNMENT OPERATES A CENTRALIZED SINGLE ACCOUNT SYSTEM– THE ENTITY DOES NOT CONTROL AMOUNTS APPROPRIATED FOR ITS USE.)

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 200X

	Note	200X		200X–1	
(in thousands of currency units)		**Treasury Account/ Single Control Account**	**Payments by external third parties**	**Treasury Account/ Single Control Account**	**Payments by external third parties**
RECEIPTS					
Allocations/ Appropriations	2	X	–	X	–
Other receipts		X	–	X	–
Assistance		–	X	–	X
Total receipts		**X**	**X**	**X**	**X**
PAYMENTS					
Wages, salaries and employee benefits		(X)	–	(X)	–
Rent		(X)	–	(X)	–
Capital Expenditure		(X)	(X)	(X)	(X)
Transfers	3	(X)	(X)	(X)	(X)
Total payments		**(X)**	**(X)**	**(X)**	**(X)**

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions or payments. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

	Note	200X		200X–1	
(in thousands of currency units)		Treasury Account/ Single Control Account	Payments by external third parties	Treasury Account/ Single Control Account	Payments by external third parties
PAYMENTS					
Program I		X	X	X	X
Program II		X	X	X	X
Program III		X	X	X	X
Program IV		X	X	X	X
Other payments		X	X	X	X
Total payments		**X**	**X**	**X**	**X**

GOVERNMENT DEPARTMENT AC

Notes to the Financial Statements

1. **Accounting Policies**

Basis of preparation

The financial statements have been prepared in accordance with Cash Basis IPSAS "Financial Reporting Under The Cash Basis of Accounting."

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for a public sector entity: Government Department AC. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises Government Department AC. Government Department AC is controlled by the national government of Country A.

Government Department AC's principal activity is to provide services to constituents.

Government Department AC does not operate its own bank account. The Government operates a centralized treasury function which administers cash expenditures incurred by all departments during the financial year. Payments made on this account in respect of the Department are disclosed in the Treasury Account column in the Statement of Cash Receipts and Payments and other financial statements.

Payments by external third parties

Government Department AC benefits from goods and services purchased on its behalf as a result of cash payments made by third parties external to the Government during the reporting period. The payments made by the third parties do not constitute cash receipts or payments of the Department but do benefit the Department. They are disclosed in the *Payments by external third parties* column in the Statement of Cash Receipts and Payments and other financial statements.

Reporting currency

The reporting currency is (currency of Country A).

2. **Appropriations**

Amounts appropriated to Government Department AC are managed through a central account administered by the Office of the Treasury. These amounts are not controlled by Department AC but are deployed on the Department's behalf by the central account administrator on presentation of appropriate documentation and authorization. All borrowings are undertaken by a central finance entity. The amount reported as allocations/appropriations in the statement of cash receipts and payments is the amount the Office of the Treasury has expended for the benefit of Department AC (the amount "drawn down").

3. <u>Transfers</u>

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of Department AC.

4. <u>Authorization Date</u>

The financial statements were authorized on XX *Month* 200X+1 by Mr YY, Minister of XXXXX for Government Department AC.

PART 2: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING—ENCOURAGED ADDITIONAL DISCLOSURES

This part of the Standard is not mandatory. It sets out encouraged additional disclosures for reporting under the cash basis. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

2.1 Encouraged Additional Disclosures

Definitions

2.1.1 *The following terms are used in this part of the Standard with the meanings specified:*

<u>Accrual basis</u> means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

<u>Assets</u> 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.

<u>Borrowing costs</u> are interest and other expenses incurred by an entity in connection with the borrowing of funds.

<u>Closing rate</u> is the spot exchange rate at the reporting date.

<u>Distributions to owners</u> are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

<u>Expenses</u> are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

<u>Extraordinary items</u> are (for the purposes of this Standard) cash flows that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.

A <u>financial asset</u> is any asset that is:

(a) *Cash;*

(b) *A contractual right to receive cash or another financial asset from another entity;*

(c) *A contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or*

(d) *An equity instrument of another entity.*

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/ equity, other than increases relating to contributions from owners.

Terms defined in Part 1 of this Standard are used in this part of the Standard with their defined meaning.

Future Economic Benefits or Service Potential

2.1.2 Assets, including cash and other resources, provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential." Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Going Concern

2.1.3 *When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.*

2.1.4 The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:

(a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and

(b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of receipts or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the entity is a going concern.

2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether the government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and

(b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Extraordinary Items

2.1.6 *An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements.*

2.1.7 Extraordinary items are characterized by the fact that they arise from events or transactions that are distinct from an entity's ordinary activities, are not expected to recur frequently or regularly and are outside the control or influence of the entity. Accordingly, extraordinary items are rare, unusual and material.

Distinct from Ordinary Activities

2.1.8 Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur. An event or transaction may be extraordinary for one entity or level of government, but not extraordinary for another entity or level of government, because of the differences between their respective ordinary activities. In the context of whole-of-government reporting, extraordinary items will be extremely rare.

Not Expected to Recur in the Foreseeable Future

2.1.9 The event or transaction will be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The nature of extraordinary items is such that they would not normally be anticipated at the beginning of a reporting period and therefore would not be included in a budget. Inclusion of an item in a budget suggests that the occurrence of the specific item is foreseen and therefore not extraordinary.

Outside the Control or Influence of the Entity

2.1.10 The event or transaction will be outside the control or influence of the entity. A transaction or event is presumed to be outside the control or influence of an entity if the decisions or determinations of the entity do not normally influence the occurrence of that transaction or event.

Identifying Extraordinary Items

2.1.11 Whether or not an item is extraordinary will be considered in the context of the entity's operating environment and the level of government within which it operates. Judgment will be exercised in each case.

2.1.12 Examples of cash flows associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some public sector entities or levels of government are:

(a) Short-term cash flows associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were predictable or occurring in more than one reporting period they would not generally be classified as extraordinary; and

(b) The cash flows associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a particular earthquake to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters, the costs associated with this activity would not generally meet the definition of an extraordinary item.

2.1.13 The restructuring of activities is an example of an event which would normally not be extraordinary for either an individual public sector entity or the whole-of-government entity which incorporates that government body. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. However, at the whole-of-government level, restructuring may occur frequently. More importantly, restructuring is usually within the control or influence of a whole-of-government entity. It is only in circumstances where the restructuring is imposed by another level of government or by an external regulator or other external authority that it could be classified as outside the control or influence of the whole-of-government entity.

2.1.14 The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of cash receipts and payments or other financial statements that might be prepared or in the notes to those financial statements. An entity may also decide to disclose only the total amount of extraordinary items on the face of the statement of cash receipts and payments and the details in the notes.

Administered Transactions

2.1.15 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.*

2.1.16 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

2.1.17 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.18 to 2.1.22 below provide guidance on the cash receipts, payments and balances that:

(a) May be controlled by a government or government entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and

(b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

Revenue Collection

2.1.18 Public sector entities may control cash or administer cash receipts or payments on behalf of the government or other governments or government entities. For example, a government Department of Taxation (or revenue collection agency) may be established with its own bank account and provided with an appropriation to fund its operations. The operations of the Department will include administering certain aspects of the Taxation Act and may encompass the collection of taxes on behalf of the government.

2.1.19 A Department of Taxation can use cash appropriated to it and deposited in a bank account which it controls to achieve its operating objectives as mandated, and can exclude others from using or benefiting from that cash. In these cases, the Department will control the cash appropriated for its own use. However, the cash the Department collects on behalf of the government through its tax collection activities is usually deposited in a specified government trust fund or transferred to a government bank account administered by the Treasury or similar department. In these circumstances, the cash collected cannot be used to support achievement of the objectives of the Department of Taxation, or otherwise deployed at the discretion of the Department's management without specific appropriation or other authorization by the government or relevant body. Therefore, the cash collected is not controlled by the Department of Taxation and would not form part of the cash receipts or cash balances of the Department. As a consequence of a government decision, some of the amounts collected may be appropriated or otherwise allocated for use by the Department. However, it is the government's decision to authorize the expenditure of the funds by the Department of Taxation, rather than the collection of the cash, that gives rise to the control.

2.1.20 Similar circumstances may arise when one government, for example a state or local government, collects cash on behalf of another government (such as a national government). In these cases, the government is acting as an agent for others in the collection of cash. The cash that arises as a result of managing transactions as an agent for others would not usually be deposited in a bank account of the collection agency and therefore would not form part of the cash receipts, cash payments or cash balances of the reporting entity.

"Pass-through" Cash Flows

2.1.21 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed "pass-through" cash flows. In these cases, the entity will:

(a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;

(b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and

(c) Have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity's statement of cash receipts and payments in accordance with paragraph 1.3.4(a)(i) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognized in the financial statements may be reported on a net basis.

Transfer Payments

2.1.22 Consistent with a government's objectives and with legislation or other authority, amounts appropriated to a government entity (a department, agency or similar) may include amounts to be transferred to third parties in respect of, for example, unemployment benefits, age or invalid pensions, family allowances and other social security and community benefit payments. In some cases, these amounts will pass through a bank account controlled by the entity. Where this occurs, the entity will recognize the cash appropriated for transfer during the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

Disclosure of Major Classes of Cash Flows

2.1.23 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*

(a) *An analysis of total cash payments and payments by third parties using a classification based on either the nature of the payments or their function within the entity, as appropriate; and*

(b) *Proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.*

2.1.24 The sub-classifications encouraged in paragraph 2.1.23(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraphs 1.3.12 and 1.3.24 of Part 1 of this Standard. Where a different classification basis is adopted in the statement of cash receipts and payments, additional disaggregated disclosures reflecting the encouragement in paragraph 2.1.23(a) above is encouraged either as a separate statement or by way of note.

2.1.25 Cash payment items and payments by third parties may be further sub-classified in order to enhance accountability by identifying the major purposes for which the payments are made. They may also be sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. An entity is encouraged to present this information in at least one of the following two ways.

2.1.26 The first method is referred to as the nature of payments method. Payments are aggregated in the statement of cash receipts and payments according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

	Cash payments	Payments by third parties
Wages and salaries	(X)	(X)
Transport costs	(X)	(X)
Capital acquisitions	(X)	(X)
Borrowing costs	(X)	(X)
Other	(X)	(X)
Total payments	(X)	(X)

2.1.27 The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

	Cash payments	Payments by third parties
Health services	(X)	(X)
Education services	(X)	(X)
Capital acquisitions	(X)	(X)
Borrowing costs	(X)	(X)
Other	(X)	(X)
Total payments	(X)	(X)

2.1.28 Under this method, the cash payments associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions related to the provision of health services and education services. The entity would present cash payment line items for each of these functions.

2.1.29 Entities classifying cash payments by function are encouraged to disclose additional information on the nature of payments, including payments made for salaries and other employee benefits.

2.1.30 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from external assistance and borrowings, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) The purposes for which external assistance grants and loans are provided, the providers of that assistance and the amount provided;

(e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);

(f) Receipts from interest and dividends; and

(g) Receipts from gifts and donations.

Related Party Disclosures

2.1.31 *An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20, "Related Party Disclosures."*

2.1.32 IPSAS 20, in the accrual based series of IPSASs, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities and Comparison with Budgets

2.1.33 *An entity is encouraged to disclose in the notes to the financial statements:*

(a) *Information about the assets and liabilities of the entity; and*

(b) *If the entity does not make publicly available its approved budget, a comparison with budgets*

2.1.34 Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They also borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. Non-cash assets and liabilities will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, governments maintain records of, and monitor and manage, their debt and other liabilities and their non-cash assets. The disclosure of information about assets and liabilities and the costs of particular programs and activities will enhance accountability and is encouraged by this Standard.

2.1.35 Entities that make such disclosures are encouraged to identify assets and liabilities by type, for example, by classifying:

(a) Assets as receivables, investments or property plant and equipment; and

(b) Liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.37 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood. Accrual basis IPSASs including IPSAS 13, *Leases*, IPSAS 17, *Property, Plant, and Equipment* and IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* can provide useful guidance to entities disclosing additional information about assets and liabilities.

Comparison with Budgets

2.1.36 Public sector entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorizing legislation. One of the objectives of financial reporting by public sector entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.9.1 to 1.9.48 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

(a) The preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and

(b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.37 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*

2.1.38 *Entities which adopt multi-period budgets are encouraged to* provide additional note disclosures *about the relationship between budget and actual amounts during the budget period.*

2.1.39 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.

2.1.40 As noted in paragraph 1.9.32 of this Standard, entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional disclosures about such matters as the relationship between the multi period budget and component annual budgets and actual amounts during the budget period.

Consolidated Financial Statements

2.1.41 *An entity is encouraged to disclose in the notes to the financial statements:*

(a) *The proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);*

(b) *Where applicable:*

(i) *The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists; and*

(ii) *The name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and*

(c) *In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.*

2.1.42 *A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements.*

2.1.43 Paragraph 1.6.20(b) of Part 1 of this Standard requires that the reasons for non-consolidation of a controlled entity should be disclosed. Paragraphs 1.6.7 and 1.6.8 of Part 1 of the Standard also provide that a controlling entity that is itself a wholly owned entity or a controlling entity that is virtually wholly owned, need not present a consolidated financial statement. When this occurs, the disclosure of the information in paragraph 2.1.42 above is encouraged.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.44 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*

2.1.45 *An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*

(a) *The total purchase or disposal consideration (including cash or other assets);*

(b) *The portion of the purchase or disposal consideration discharged by means of cash; and*

(c) *The amount of cash in the controlled entity or operating unit acquired or disposed of.*

2.1.46 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.

2.1.47 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.

2.1.48 Paragraph 2.1.33 encourages the disclosure of assets and liabilities of the entity. Assets and liabilities other than cash of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarized by each major category. Consistent with the requirement of paragraph 1.3.37 of Part 1 of this Standard, where such disclosure is made, the assets and liabilities should be clearly identified and the basis on which they are recognized and measured explained.

Joint Ventures

2.1.49 *An entity is encouraged to make disclosures about joint ventures which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date.*

2.1.50 Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:

(a) As cash payments, the cash expended in the acquisition of an interest in a joint venture and in the ongoing operations of the joint venture; and

(b) As cash receipts, the cash received from the joint venture.

Disclosures about joint ventures may include a listing and description of interests in significant joint ventures. International Public Sector Accounting Standard IPSAS 8, "Financial Reporting of Interests in Joint Ventures" in the accrual based series of IPSASs provides guidance on the different forms and structures that joint ventures may take and potential additional disclosures that might be made.

Financial Reporting in Hyperinflationary Economies

2.1.51 In a hyperinflationary economy, the presentation of the financial statements in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

2.1.52 This Standard does not identify an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with the encouragements in this Standard would become necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

(a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

(b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

(c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;

(d) Interest rates, wages and prices are linked to a price index; and

(e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

The Restatement of Financial Statements

2.1.53 *An entity that reports in the currency of a hyperinflationary economy is encouraged to:*

(a) *Restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date;*

(b) *Restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and*

(c) *Use a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.*

2.1.54 *The entity is encouraged to make the following disclosures:*

(a) *The fact that the statement of cash receipts and payments and other financial statem*ents, *and the corresponding figures for previous periods, have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and*

(b) *The identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period.*

2.1.55 Prices change over time as the result of various political, economic and social forces. Specific forces such as changes in supply and demand, and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general economic forces may result in changes in the general level of prices and therefore in the general purchasing power of money.

2.1.56 In a hyperinflationary economy, the usefulness of financial statements is substantially increased if they are expressed in terms of the measuring unit current at the reporting date. As a result, the treatments and disclosures in paragraphs 2.1.53 and 2.1.54 above are encouraged. Presentation of this information as the primary presentation rather than as a supplement to financial statements which have not been restated is encouraged. Separate presentation of the statement of cash receipts and payments and other financial statements before restatement is discouraged.

2.1.57 All items in the statement of cash receipts and payments will be expressed in terms of the measuring unit current at the reporting date. Therefore, all amounts, including any payments by third parties disclosed on the face of the statement of cash receipts and payments or in other financial statements, would be restated by applying the change in the general price index from the dates when the payments and receipts were initially recorded.

2.1.58 Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, this Standard encourages restatement of the budgetary information in accordance with this Standard.

Comparative Information

2.1.59 If comparisons with previous periods are to be meaningful, comparative information for the previous reporting period will be restated by applying a general price index so that the comparative financial statements are presented in terms of the measurement 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 measurement unit current at the end of the reporting period.

Consolidated Financial Statements

2.1.60 A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. If the statement of cash receipts and payments and other financial statements are to be prepared on a consistent basis, the financial statements of any such controlled entity will be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates.

2.1.61 If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statement.

Selection and Use of the General Price Index

2.1.62 The restatement of financial statements in accordance with the approach encouraged by this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

2.1.63 The disclosures encouraged by this Standard are intended to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Assistance Received From Non-Governmental Organizations (NGOs)

2.1.64 *Where practicable, an entity is encouraged to apply to assistance received from non-governmental organizations (NGOs), the required disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.*

2.1.65 Reporting entities are not required to make the disclosures identified in paragraphs 1.10.1 to 1.10.27 in respect of assistance received from non-governmental organizations (NGOs). This is because the costs of collecting and aggregating the information necessary to comply with those requirements may be greater than its benefits. However, making the disclosures about assistance received from NGOs which are identified in paragraphs 1.10.1 to 1.10.27, together with the disclosures encouraged in paragraphs 2.1.66 to 2.1.93 below, can provide additional input to assessments of the extent to which the reporting entity is dependent on assistance from these organizations to support its activities. Accordingly, reporting entities are encouraged to apply the disclosures identified in this Standard to assistance received from NGOs, where it is practicable to do so.

Recipients of External Assistance

2.1.66 *An entity is encouraged to disclose by significant class in notes to the financial statements:*

(a) *The purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and*

(b) *The purposes for which external assistance payments were made during the reporting period.*

2.1.67 An entity may receive external assistance for many purposes including assistance to support its:

(a) Economic development or welfare objectives, often termed development assistance;

(b) Emergency relief objectives, often termed emergency assistance;

(c) Balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;

(d) Military and/or defense objectives, often termed military assistance; and

(e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.

2.1.68 Part 1 of this Standard requires disclosure of the total amount of external assistance received during the reporting period showing separately the total amount received by way of grants and loans. Disclosure of the significant classes of external assistance received by way of loan or grant will enable users to determine the purposes for which assistance was provided during the period, the amounts thereof and whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.69 Disclosure by significant class of the purposes for which external assistance payments were made during the reporting period will further enhance the entity's accountability for its use of external assistance received.

2.1.70 *An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided.*

2.1.71 Disclosure of each provider of external assistance and the amount provided by way of loan and grant will indicate the extent of diversification of sources of assistance. This will assist readers of the financial statements to determine, for example, whether the entity is dependent on particular agencies for assistance, the extent of that dependency and the currency in which it was provided, and whether the assistance is provided by way of a grant or a loan which will need to be repaid in the future. The disclosure encouraged by this paragraph excludes amounts that have not been drawn down during the period. Paragraph 2.1.72 encourages disclosure of information about undrawn amounts of external assistance in certain circumstances.

2.1.72 *In respect of external assistance that is undrawn at reporting date and is disclosed in accordance with paragraph 1.10.18 of Part 1 of this Standard, an entity is encouraged to disclose in notes to the financial statements:*

(a) *Each provider of loan assistance and grant assistance and the amount provided by each;*

(b) *The purposes for which the undrawn loan assistance and undrawn grant assistance may be used;*

(c) *The currency in which the undrawn assistance is held or will be made available; and*

(d) *Changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*

2.1.73 Undrawn external assistance balances are required to be disclosed in certain circumstances by paragraph 1.10.18 of Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.72 will enable readers of the financial statements to determine the purposes for which such undrawn assistance may be used in the future, the currency in which that undrawn assistance is held or will be made available, and whether the amount of undrawn loan and grant assistance declined or increased during the period.

2.1.74 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grants, the amount of new loans and new grants approved or otherwise made available during the period, the total amount of loans and grants drawn or utilized during the period, the total amounts of loans and grants cancelled or expired during the period, and the closing balance of undrawn loans and grants. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change.

2.1.75 Where disclosures of changes in the amount of undrawn assistance are made in the entity's reporting currency, external assistance denominated in a foreign currency will be reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate on the date of each applicable transaction, consistent with the requirements of Part 1 of this Standard.

2.1.76 *An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or affect access to, or limit the use of, external assistance.*

2.1.77 Some external assistance agreements limit or specifically define the use or purpose for which the external assistance may be used, or limit the sources from which goods or services may be purchased. This type of external assistance term or condition may specify that the funds are available only to purchase specific inputs for the construction of specified facilities at a specified location, or that the goods or services purchased under the external assistance agreement must originate from a specified country or countries.

2.1.78 Some external assistance may be released on specific dates, or may be released upon the entity:

(a) Undertaking actions specified in an external assistance agreement, such as implementing specific policy changes; or

(b) Achieving ongoing performance targets, such as budget deficit targets or other broad economic objectives, or establishing a financial sector asset recovery or management agency.

2.1.79 Disclosure of terms and conditions that determine or affect access to external assistance will indicate the extent to which external assistance is time bound and/or is dependent upon the entity taking certain actions and achieving certain performance objectives, and what those actions and performance objectives are.

2.1.80 *An entity is encouraged to disclose in notes to the financial statements:*

(a) *The outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and*

(b) *The amount and terms and conditions of external assistance loans and grants for which performance of related terms and conditions have been guaranteed by third parties, and any additional terms and conditions arising from the guarantee.*

2.1.81 The balance of external assistance loans borrowed by an entity and payment of interest thereon may be guaranteed, in total or up to a specified amount. Terms and conditions associated with the loans may also require the recipient to take certain actions, or achieve agreed outcomes such as setting tariffs according to an agreed formula, the performance of which are guaranteed by third parties. External assistance grants may also be subject to similar terms and conditions, the performance of which are guaranteed by third parties.

2.1.82 Disclosure of the amounts of external assistance loans and grants guaranteed by third parties will indicate the extent of support from another entity to obtain the benefits of the external assistance agreement. Disclosure of the terms and conditions of external assistance loans and grants that have been guaranteed, and any additional terms and conditions imposed to effect that guarantee, will indicate the additional performance requirements or conditions that arise as a consequence of securing the guarantee.

2.1.83 *An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non compliance.*

2.1.84 Paragraph 1.10.25 of Part 1 of this Standard requires the disclosure of significant terms and conditions that have not been complied with when non compliance has resulted in cancellation of the assistance or given rise to an obligation to return assistance previously provided. External assistance agreements may also include other significant terms and conditions that are to be complied with, as well as some procedural terms and conditions. Consequences of non compliance with these other significant terms and conditions may include a reduction in the amount, or variation in the timing, of funds that may be drawn or made available in the future until the default is corrected. They may also include an increase in the interest rate charged on loan funds.

2.1.85 Identifying these other significant terms and conditions which have not been complied with is likely to require professional judgment. That judgment will be exercised in the context of the entity's particular circumstances and by reference to the qualitative characteristics of financial statements. These terms and conditions are likely to be those where non compliance is likely to affect the amount or timing of funds that will be available to support the entity's future operations.

2.1.86 *An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external assistance debt. Where disclosures of future debt service payments denominated in a foreign currency are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate.*

2.1.87 External assistance debt agreements will include terms and conditions relating to such matters as the grace period, interest rate, current debt service payments, future debt service payments, remaining term of the loan, currency of debt service payments, principal repayment requirements (where repayment of the principal is deferred until the end of the loan term, or some other future date), and other significant repayment terms.

2.1.88 Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current and additional operations. Disclosure of repayment terms and conditions of outstanding external assistance debt will enable readers of the financial statements to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge payable.

2.1.89 Disclosure of information about repayment terms and conditions may require the estimation of, for example, the interest rate to be applied to variable rate debt. The estimated interest rate will usually be determined by reference to applicable interest rates at the closing date. In accordance with the requirements of paragraphs 1.3.30 to 1.3.37 of Part 1 of this Standard, when an entity elects to make disclosures which involve estimates, the accounting policies selected and applied in developing such estimates will be disclosed where necessary for a proper understanding of the financial statements.

2.1.90 *An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services.*

2.1.91 Significant resources may be received under external assistance agreements in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement. It will also occur when food aid is provided to a government for distribution to its citizens under an external assistance agreement. For some recipients, goods or services may be the major form in which external assistance is received.

2.1.92 Disclosure of the value of external assistance received as goods and services will assist readers of the financial statements to better understand the full extent of external assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.

2.1.93 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by the external assistance agency. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of external assistance in the form of goods or services is disclosed, paragraph 1.10.21 of Part 1 of this Standard requires the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value—that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

2.2 Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting

Presentation of the Statement of Cash Receipts and Payments

2.2.1 *An entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard (IPSAS 2), "Cash Flow Statements."*

2.2.2 IPSAS 2 provides guidance on classifying cash flows as operating, financing and investing and includes requirements for preparing a statement of cash flows which reports these classes separately on the face of the statement. A summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under this Standard is included in Appendix 3. Part 2 of this Standard encourages disclosure of information additional to that required by IPSAS 2. Entities which adopt the format of IPSAS 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

Scope of Consolidated Statements—Exclusions from the Economic Entity

2.2.3 When an entity adopts the accrual basis of accounting in accordance with the accrual IPSASs, it will not consolidate entities in which control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. Temporary control may occur where, for example, a national government intends to transfer its interest in a controlled entity to a local government.

2.2.4 Part 1 of this Standard does not provide for such entities to be excluded from the consolidated financial statements prepared under the cash basis. This is because:

(a) The cash of an entity which is controlled on only a temporary basis can be used for the benefit of the economic entity during the period of temporary control; and

(b) The potentially complex consolidation adjustments that may be necessary under the accrual basis will not arise under the cash basis.

2.2.5 For this exemption from consolidation to apply under the accrual IPSASs, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. For the exemption to apply at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.

2.2.6 Entities preparing to migrate to the accrual basis will need to be aware of this difference in consolidation requirements of the accrual and cash basis IPSASs, and to determine whether, for any controlled entities included in the consolidated statement of receipts and payments, control is temporary.

Appendix 2

Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

This appendix is illustrative only. The purpose of the appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.

Extract from notes to financial statements of Entity ABC

Administered Transactions (paragraph 2.1.15)

Administered transactions comprise cash flows resulting from transactions administered by the Entity as an agent on behalf of the government and specific government bodies. All cash collected in the capacity of an agent is deposited in the consolidated revenue fund and/or trust account (name of account), as appropriate. These accounts are not controlled by the Entity and the cash deposited in them cannot be used by the Entity without specific authorization by the relevant government body.

(in thousands of currency units)	**Nature of Transaction**	**200X**	**200X–1**
Cash collected on behalf of			
The Executive/Crown	Collection of taxation	X	X
Agency EF	Collection of utility service fee	X	X
		X	X
Cash transferred to respective entities		(X)	(X)
		–	–

Related Party Transactions (paragraph 2.1.31)

The key management personnel (as defined by IPSAS 20, "Related Party Disclosures") of Entity ABC are the Minister, the members of the governing body and the members of the senior management group. The governing body consists of members appointed by Government A. The chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Entity ABC. The aggregate remuneration of members of the governing body and the number of members determined on a full time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration AX million.

Number of persons AY persons.

The senior management group consists of the Entity's chief executive officer, the chief financial officer, and the heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration AP million.

Number of persons AQ persons.

Extract from notes to financial statements of Government X

Assets and Liabilities (paragraph 2.1.33(a))

Property, plant and equipment

The Government commenced the process of identifying and valuing major classes of its property, plant and equipment. The assets are stated at historical cost or valuation. The valuations were performed by an independent professional valuer. The valuation bases used for each class of assets are as follows:

Plant and Equipment Cost

Land Current Value

Buildings Cost or Market Value

(in thousands of currency units)	**200X**	**200X–1**
Plant and equipment	X	X
Land and buildings		
Property within city limits	X	X
Buildings at cost	X	X
Buildings at valuation	X	X
	X	X

(Extract from notes to financial statements of Government X: Assets and Liabilities (paragraph 2.1.33(a) continued)

Borrowings

The borrowings of the Government are listed below:

(in thousands of currency units)	**200X**	**200X–1**
Balance at beginning of year	X	X
PROCEEDS		
Domestic Commercial Institution	X	X
Offshore Commercial Institution	X	X
Development Banks and Similar Lending Agencies	X	X
Total borrowings	**X**	**X**
REPAYMENTS		
Domestic Commercial Institution	(X)	(X)
Offshore Commercial Institution	(X)	(X)
Development Banks and Similar Lending Agencies	(X)	(X)
Total repayments	**(X)**	**(X)**
Balance at end of year	X	X

(*Extract from notes to financial statements of Government X continued*)

Comparison with budget when the entity does not make its budget publicly available (paragraph 2.1.33 (b))

(in thousands of currency units)	**Actual**	**Budgeted**	**Variance**
RECEIPTS			
Taxation			
Income tax	X	X	X
Value-added tax	X	X	(X)
Property tax	X	X	X
Other taxes	X	X	(X)
	X	X	X
Aid Agreements			
International agencies	X	X	–
Other Grants and Aid	X	X	–
	X	X	–
Borrowings			
Proceeds from borrowings	X	X	(X)
Capital Receipts			
Proceeds from disposal of plant and equipment	X	X	X
Trading Activities			
Receipts from trading activities	X	X	X
Other receipts	X	X	X
Total receipts	**X**	**X**	**X**
PAYMENTS			
Operations			
Wages, salaries and employee benefits	(X)	(X)	(X)
Supplies and consumables	(X)	(X)	X
	(X)	(X)	(X)
Transfers			
Grants	(X)	(X)	–
Other transfers	(X)	(X)	–
	(X)	(X)	–
Capital Expenditures			
Purchase/construction of plant and equipment	(X)	(X)	(X)
Purchase of financial instruments	(X)	(X)	–
	(X)	(X)	(X)
Loan and Interest Repayments			
Repayment of borrowings	(X)	(X)	–
Interest payments	(X)	(X)	–
	(X)	(X)	–
Other payments	(X)	(X)	X
Total payments	**(X)**	**(X)**	**(X)**
NET RECEIPTS/(PAYMENTS)	**X**	**X**	**X**

Extract from notes to financial statements of Entity XYZ

Controlled Entities (paragraphs 2.1.41, 2.1.44, and 2.1.45)

Entity XYZ has the power to govern the financial and operating policies so as to benefit from the activities of other entities. These are controlled entities. All controlled entities are included in the consolidated financial statements. (Paragraph 1.6.20(a) in Part 1 of this Standard requires that a list of significant controlled entities be disclosed.)

Control of government entities arises by way of statute or other enabling legislation. Control of government business enterprises arises by way of statute and in the case of Enterprise C and D, by way of ownership interest. Entity XYZ retains control of Enterprise E through legislative authority although the majority of the equity of Enterprise E has been sold to private investors.

Enterprise	Ownership Interest (%)	Voting Power (%)
Enterprise E	XX	XX

Acquisitions of Controlled Entities and Operating Units

Names of Enterprises acquired	Proportion of shares acquired %	Purchase consideration (in thousands of currency units)	Cash portion of purchase consideration(in thousands of currency units)	Cash balances acquired (in thousands of currency units)
Enterprise C	XX	X	X	X
Enterprise D	XX	X	X	X
		X	X	X

(Extract from notes to financial statements of Entity XYZ continued)

Disposals of Controlled Entities and Other Operating Units

Name of Enterprise disposed of	Proportion of shares disposed of %	Disposal consideration (in thousands of currency units)	Cash portion of disposal consideration (in thousands of currency units)	Cash balance disposed of (in thousands of currency units)
Enterprise F	XX	X	X	X

Significant Joint Ventures (paragraph 2.1.49)

Name of Joint Venture	Principal Activity	Output Interest	
		200X %	200X–1 %
Regional Water Board	Water provision	XX	XX
Regional Electricity Board	Provision of utility services	XX	XX

<u>Extract from notes to financial statements of Government B:</u>

Biennial Budget on Cash Basis—For the Year Ended December 31, 200X (paragraph 2.1.38)

(in thousands of currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Avail-able for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	*Difference: Budget and Actual for Budget Period*
CASH INFLOWS									
Taxation	X	X	X	X	X	X	X	X	X
Aid agreements	X	X	X	X	X	X	X	X	X
Proceeds: borrowing	X	X	X	X	X	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X	X	X	X	X	X
Other receipts	X	X	X	X	X	X	X	X	X
Total inflows	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
CASH OUTFLOWS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(in thousands of currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Avail-able for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	**Difference: Budget and Actual for Budget Period*
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total outflows	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOW	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

Extract From Notes to the Financial Statements of Government C

Assistance Provided by Non-Governmental Organizations (NGOs)
(Paragraph 2.1.64)

Assistance from NGOs is included in the amount of "Other Grants and Aid" in the Statement of Cash Receipts and Payments. The amount of assistance from NGOs received during the reporting period in the reporting currency is:

	200X		200X–1	
	Cash Receipts	**Payments by third parties**	**Cash Receipts**	**Payments by third parties**
Grant Funds	X	X	X	–
Loan Funds	–	–	–	–
Total	**X**	**X**	**X**	–

Assistance was received from NGOs under agreements specifying that the assistance would be utilized for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	200X	200X–1	200X	200X–1	200X	200X–1	200X	200X–1
NGO 1	X	X	–	–	–	X	X	X
NGO 2	–	–	X	–	–	–	X	–
NGO 3	X	X	X	–	–	–	X	X
Total	**X**	**X**	**X**	–	–	**X**	**X**	**X**
USD	X	X	X	X	–	X	X	X
Euro	X	X	X	-	-	-	X	X
Yen	–	–	X	X	–	–	X	X

The currency in which external assistance was provided was as follows:

- NGO 1 – US Dollars to the amount of YYY and other currency being (specify currency) to the amount of X
- NGO 2 – Euros to the amount of YYY
- NGO 3 – Yen to the amount of YYY

The assistance was fully used for the purposes specified.

While NGO 1, 2 and 3 have indicated their intention to provide ongoing emergency assistance as the need arises and their resources allow, the extent of the assistance is not subject to binding written agreements. It will be determined on the basis of an assessment of needs and the capacity of each NGO to provide ongoing assistance.

During 200X, NGO 1 provided medical teams and medical equipment in support of earthquake victims in the ZZZ region. Temporary shelter, food and clothing were also supplied by NGO 2. The value of the goods and services received has been estimated at XX domestic currency units. The value of the specialized emergency assistance provided has been determined based on cost estimates provided by the NGOs involved.

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of assistance grants.

There were no amounts of undrawn assistance from NGOs in 200X or 200X–1.

Extract From Notes to the Financial Statements of Government C

Classes of External Assistance *(Paragraph 2.1.66 and 2.1.70)*

During the reporting period external assistance was received from multilateral and bilateral external assistance agencies under agreements specifying that the assistance would be utilized for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	200X	200X–1	200X	200X–1	200X	200X–1	200X	200X–1
Loan Funds	X	X	–	–	X	–	X	X
Grant Funds	X	–	X	X	–	–	X	X
Total	**X**	**X**	**X**	**X**	**X**	-	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	-	**X**	**X**

	Agency 1		Agency 2		Agency 3		Agency 4	
	200X	200X–1	200X	200X–1	200X	200X–1	200X	200X–1
Loan Funds	X	X	–	–	X	–	X	X
Grant Funds	X	–	X	X	–	X	X	X
Total	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
Currency: US Dollar	X	X	–	–	–	–	–	–
Euro	–	–	X	X	–	–	–	–
Yen	–	–	–	–	X	X	–	–
Other	–	–	–	–	–	–	X	X

Undrawn External Assistance *(Paragraph 2.1.72)*

Undrawn external assistance loans and grants consist of amounts which have been specified in a binding agreement with external assistance agencies but have not been utilized at reporting date, and are subject to terms and conditions that have been satisfied in the past and it is anticipated will be satisfied in the future. External assistance loans cancelled or expired resulted from overestimation of the cost of development projects. Changes in the amount of undrawn assistance loans and grants are presented in the entity's reporting currency.

	Development Assistance		**Emergency Assistance**		**Other**		**Total**	
	200X	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**
Opening balance								
Loans	X	X	-	-	X	X	X	X
Grants	X	X	-	X	-	-	X	X
Approved in period								
Loans	X	X	–	–	X	–	X	X
Grants	X	X	X	X	X	X	X	X
Total available	X	X	X	X	X	X	X	X
Loans drawn down	(X)	(X)	–		(X)	(X)	(X)	–
Grants drawn down	(X)	(X)	(X)	(X)	–	–	(X)	(X)
Loans cancelled/expired	(X)	(X)	–	–	–	–	(X)	(X)
Grants cancelled/expired	–	–	–	–	–	–	–	–
Exchange difference	X	X	–	–	X	X	X	X
Closing balance – Loans	X	X	–	–	X	X	X	X
Closing balance – Grants	X	X	–	–	X	X	X	X

Closing balance	**Development Assistance**		**Emergency Assistance**		**Other**		**Total**	
By currency held	**200X**	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**
US Dollar	X	X	–	X	X	X	X	X
Euro	X	X	–	X	X	X	X	X
Yen	X	X	–	–	X	X	X	X
Other	X	X	–	–	–	–	X	–
By reporting currency								
Loans								
Agency 1	X	X	–	–	X	X	X	X
Agency 4	X	X	–	–	X	X	X	X
Grants								
Agency 2	X	X	–	X	X	X	X	X
Agency 4	X	X	–	X	X	X	X	X
Total	**X**	**X**	**–**	**X**	**X**	**X**	**X**	**X**

Significant terms and conditions *(Paragraph 2.1.76)*

General Restrictions

The balance of commitments for, and undrawn balances of, external assistance is subject to, or restricted by, performance of agreed actions or the maintenance of agreed economic or financial performance levels.

The Government has prepared an economic development plan for receipt of development assistance. The plan includes a poverty reduction strategy which is supported by the donor community. The Government and the donors have agreed the following major targets within the poverty reduction strategy: (Entity to identify major targets).

The Government and the donor community have agreed on methods to monitor progress to achieve the agreed targets and will meet annually to review progress.

Loans and grants to support specific projects include financial performance targets for all electricity and water utilities to ensure adequate revenue to cover the cost of providing services, to properly maintain existing utility assets and to contribute to a program of asset replacement and renewal.

Procurement Restrictions

Certain development assistance received is subject to restrictions in regards to the nature of goods or services that may be purchased or the country in which the goods or services may be purchased. All multilateral development bank loans or grants are restricted in that (a) they prohibit the use of their funds for the purchase of military goods or services, luxury goods or environmentally damaging goods; and (b) the purchase of goods or services must be from their respective member countries. External assistance from bilateral agencies is either unrestricted or limited to purchases of goods or services from the country providing the funds. All "Specific Purpose Loans or Grants" fund specifically defined projects and, as such, the procurement of goods and services is restricted to the agreed inputs for each project.

Non Compliance with other significant terms and conditions *(Paragraph 2.1.83)*

The Government's expenditures in the education sector did not meet the target level primarily due to construction delays caused by an earthquake. Expenditures were X percent below the target. Steps have been taken to correct the under investment in the education sector and the Government and the relevant donors support the corrective actions planned. The Government has complied with all procurement regulations applicable under all outstanding external assistance loans and grants.

Guarantees of external assistance loans and grants *(Paragraph 2.1.80)*

The Government of YYYY has guaranteed an outstanding export financing loan in the amount of currency units XXX (200X–1: Nil). The principal is to be repaid in 5 years. The interest rate applicable to the outstanding balance is Y percent. Annual, interest only service payments are to be made. No additional terms or conditions arise from the guarantee. No other external assistance loans or grants are subject to guarantees by third parties.

Repayment Terms and Conditions—Debt Service Obligations *(Paragraph 2.1.86)*

The terms of development assistance loans include grace periods which range from 0 to a maximum of 7 years. Interest rates include both fixed rates and variable rates. All development assistance loans are denominated in US Dollars or Euros. Interest rates on fixed rate loans as at fiscal year ending 200X, range from X percent to Y percent with a weighted average of Z percent. For the fiscal year ending 200X–1, they range from X percent to Y percent with a weighted average of Z percent. Interest rates on variable rate loans range from LIBOR plus X percent to LIBOR plus Y percent with a weighted average at the end of fiscal year 200X of Z percent and at the end of fiscal year 200X–1 of Z percent.

Other external assistance loans do not include a grace period, and are denominated in a range of currencies including US Dollars, Euros and Yen.

	200X			
	Outstanding Debt by Remaining Grace Period Years			
	Expired	**0–4**	**5–7**	**Total**
Development Assistance	X	X	X	X
Other	X	–	–	X
Total	X	X	X	X

	200X–1			
	Outstanding Debt by Remaining Grace Period Years			
	Expired	**0–4**	**5–7**	**Total**
Development Assistance	X	X	X	X
Other	X	–	–	X
Total	X	X	X	X

Development assistance loans have repayment periods varying from X years to Y years subsequent to the grace period with a weighted average for outstanding debt of Z years including the grace period. In all cases, the debt service is based on a fixed payment of principal plus interest accrued.

Other external assistance loans have repayment periods varying from X to Y years with a weighted average of Z years. Debt service is based on a fixed payment of principal plus interest accrued.

	200X				
	Debt Service Payments Including Interest				
	US Dollar	**Euro**	**Yen**	**Other**	**Total**
Development Assistance	X	X	X	X	X
Other	X	X	–	–	X
Total	X	X	X	X	X

	200X–1				
	Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

All debt service payments for subsequent years are based on payment of a fixed amount comprising principal plus accrued interest. The interest payment or service charge component is based on the outstanding principal of each loan at the end of the current year, and for variable interest rate loans, at interest rates prevailing at that date. Debt service payments denominated in foreign currency have been determined by applying the closing rate of exchange on the reporting date of the financial statements.

	200X + 1 and X Subsequent Years				
	Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	–	–	X
Total	X	X	X	X	X

Receipt of Goods and Services *(Paragraph 2.1.90 and 1.10.21)*

During 200X, a severe earthquake occurred in the ZZZ region inflicting serious damage to government property and private property, and significant loss of life. Multilateral agencies and bilateral agencies of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialized medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter and food were also supplied. The value of goods and services received has been estimated at XX domestic currency units. The value of the emergency assistance provided has been determined based on cost estimates provided by the bilateral aid agencies involved because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX domestic currency units which represents the wholesale price of similar rice in domestic wholesale markets.

Goods and services received during the year have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

Appendix 3

Presentation of the Statement of Cash Receipts and Payments in the Format Required by IPSAS 2 Statement of Cash Flows

Paragraph 2.2.1 of Part 2 of this Standard encourages an entity which intends to migrate to the accrual basis of accounting to present a statement of cash receipts and payments in the same format as that required by IPSAS 2, "Statement of Cash Flows." IPSAS 2 is applied by an entity which reports on an accrual basis of accounting in accordance with International Public Sector Accounting Standards.

This appendix provides a summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under the cash basis of accounting as required by this Standard. Entities intending to present a statement of cash receipts and payments in accordance with the requirements of IPSAS 2 as far as is appropriate will need to refer to that IPSAS.

Presentation in the Format Required by IPSAS 2 Statement of Cash Flows

1. IPSAS 2 requires an entity which prepares and presents financial statements under the accrual basis of accounting to prepare a cash flow statement which reports cash flows during the period classified by operating, investing and financing activities as defined below.

Definitions

2. *<u>Financing activities</u> are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.*

   <u>Investing activities</u> are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

   <u>Operating activities</u> are the activities of the entity that are not investing or financing activities.

Components of the Financial Statements

3. In presenting a statement of cash receipts and payments in this format it may be necessary to classify cash flows arising from a single transaction in different ways. (The term cash flow statement is used in the remainder of this appendix for a statement of cash receipts and payments presented in the same format as that required by IPSAS 2.) For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element may be classified as a financing activity. An entity presenting information by way of a cash flow statement presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities.

4. A cash flow statement will include line items which present the following amounts:

   (a) Total receipts from operating activities;

   (b) Total payments on operating activities;

   (c) Net cash flows from operating activities;

   (d) Net cash flows from investing activities;

   (e) Net cash flows from financing activities;

   (f) Beginning and closing balances of cash; and

   (g) Net increase or decrease in cash.

   Additional line items, headings and sub-totals will also be presented on the face of the statement when such presentation is necessary to present fairly the entity's cash flows.

5. An entity will also present on the face of the cash flow statement or in the notes:

   (a) Major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities, except to the extent that paragraph 1.3.13 of Part 1 of this Standard allows reporting on a net basis;

   (b) A sub-classification of total cash receipts from operations in a manner appropriate to an entity's operations; and

   (c) An analysis of payments on operating activities using a classification based on either the nature of payments or their function within the entity, as appropriate.

   Separate disclosure of payments made for capital acquisitions and for interest and dividends is also consistent with the requirements of IPSAS 2.

6. Disclosure of information about such matters as whether cash is generated from taxes, fines, fees (operating activities), the sale of capital assets (investing activities) and/or borrowings (financing activities) and whether it was expended to meet operating costs, for the acquisition of capital assets (investing activities) or for the retirement of debt (financing activities) will enhance transparency and accountability of financial reports. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows. Accordingly, this Standard encourages all entities to disclose this information in the financial statements and/or related notes.

Operating Activities

7. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

(a) By way of taxes (directly and indirectly); and

(b) From the recipients of goods and services provided by the entity.

The disclosure of the amount of net cash flows from operating activities also assists in identifying the extent to which operations of the entity generate cash that can be deployed to repay obligations, pay a dividend/distribution to its owner and make new investments without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

8. 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 budget authorizations made by central government or other public sector entities, including those made for the acquisition of capital assets;

(d) Cash receipts from royalties, fees and commissions;

(e) Cash payments to other public sector entities to finance their operations (not including loans or equity injections);

(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 a public sector 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.

9. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading

securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

10. In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of the entity, and no clear distinction is made for the disposition of those funds between current activities, capital works and contributed capital. Where an entity is unable to separately identify appropriations or budget authorizations as current activities, capital works (operating activities) and contributed capital (investing activities), IPSAS 2 explains that the entity should classify the appropriation or budget authorization as cash flows from operations, and disclose this in the notes to the statement of cash flows.

Investing Activities

11. The separate disclosure of cash flows arising from investing activities identifies the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:

    (a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;

    (b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

    (c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

    (d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

    (e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

    (f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

    (g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is designated as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities

12. The separate disclosure of cash flows arising from financing activities is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed;

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease; and

(d) Cash receipts and payments relating to the issue of and redemption of currency.

Interest and Dividends

13. IPSAS 2 requires the separate disclosure of cash flows from interest and dividends received and paid. IPSAS 2 also requires that where such disclosures are made they should be classified in a consistent manner from period to period as either operating, investing or financing activities.

14. The total amounts of interest and dividends paid and received during a period are disclosed in the cash flow statement. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of the cash flows associated with interest and dividends received and paid for other entities. Interest and dividends paid and interest and dividends received may be classified as operating cash flows. Alternatively, interest and dividends paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Reporting Major Classes of Receipts and Payments

15. The sub-classification of receipts depends upon the size, nature and function of the amounts involved. Depending upon the nature of the entity, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) Receipts from grants, transfers, or budget appropriations (possibly classified by source); and

(e) Receipts from interest and dividends.

16. Payment items are sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. Examples of classification of payments by nature and function are included in Part 1 of this Standard.

Appendix 4

Qualitative Characteristics of Financial Reporting

Paragraph 1.3.32 of Part 1 of this Standard requires that the financial statements provide information that meets a number of qualitative characteristics. This appendix summarizes the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

Materiality

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statement. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

Completeness

The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that the financial statements show corresponding information for preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Appendix 5

Establishing Control of Another Entity for Financial Reporting Purposes

1. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).

2. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a Government Business Enterprise (GBE) may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

Control for Financial Reporting Purposes

3. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.

4. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between a controlled entity and its controlling entity.

5. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding but has raised

capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.

6. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.

7. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and Purchase Power

8. Governments and government entities have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of a public sector entity include only those resources (cash, including cash equivalents) that it controls and can benefit from, the meaning of control for the purposes of this Standard does not extend to:

(a) The power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or

(b) Entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity which is dependent on it for funding (such as a charity) or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.

Determining Whether Control Exists for Financial Reporting Purposes

9. Public sector entities may create other entities to achieve some of their objectives. In some cases, it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 10 and 11 below provide guidance to help determine whether or not control exists for financial reporting purposes.

10. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

(a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

(b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.

(c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

(d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Benefit conditions

(a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.

(b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

11. When one or more of the conditions listed in paragraph 10 do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

(a) The entity has the ability to veto operating and capital budgets of the other entity.

(b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.

(c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.

(d) The mandate of the other entity is established and limited by legislation.

(e) The entity holds a "golden share"[1] (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

Benefit indicators

(a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.

(b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.

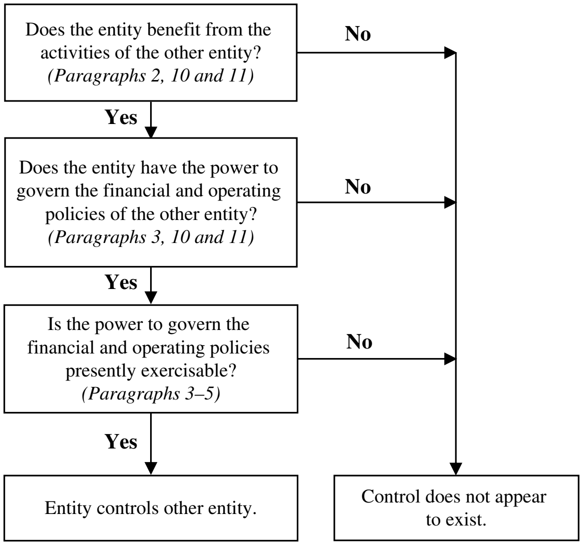
(c) The entity is able to direct the other entity to cooperate with it in achieving its objectives.

(d) The entity is exposed to the residual liabilities of the other entity.

12. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 1 to 11 of this appendix.

[1] "Golden share" refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder's ownership interest or representation on the governing body.

Establishing Control of another Entity for Financial Reporting Purposes



13. Sometimes a controlled entity is excluded from consolidation when its activities are dissimilar to those of other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. Exclusion on these grounds is not justified because better information would be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities.

INTRODUCTION TO RECOMMENDED PRACTICE GUIDELINES

Recommended Practice Guidelines (RPGs) are 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 (IPSASs) and RPGs for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSASs 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 IPSASs 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.

RPG 1—REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES

History of RPG

RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* was issued in July 2013.

Since then, RPG 1 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in RPG 1

Paragraph Affected	How Affected	Affected By
5	Deleted	The Applicability of IPSASs April 2016
6	Amended	The Applicability of IPSASs April 2016

July 2013

REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting on the long-term sustainability of a public sector entity's finances ("reporting long-term fiscal sustainability information"[1]). The RPG provides information on the impact of current policies and decisions made at the reporting date on future inflows and outflows and supplements information in the general purpose financial statements ("financial statements"). The aim of such reporting is to provide an indication of the projected long-term sustainability of an entity's finances over a specified time horizon in accordance with stated assumptions.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting long-term fiscal sustainability information is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).

3. The scope of this RPG includes an entity's projected flows. It is not limited to those flows related to programs providing social benefits. Nevertheless, this RPG acknowledges that the flows relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting long-term fiscal sustainability information for many entities.

4. This RPG does not directly address issues associated with the reporting of environmental sustainability. However, an entity should assess any financial impacts of environmental factors and take them into account when developing its projections.

5. [Deleted]

6. Although this RPG does not apply directly to commercial public sector entities, the future inflows and outflows related to a commercial public sector entity, controlled by the reporting entity, over the specified time horizon of the projections are within the scope of this RPG.

7. Long-term fiscal sustainability information should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

[1] The IPSASB acknowledges that in a number of jurisdictions the term "fiscal" has a narrow interpretation related to taxation. In this RPG the term is used with a broader meaning to include both inflows and outflows.

8. This RPG outlines minimum information levels. The RPG does not preclude the presentation of additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics (QCs) of financial reporting.

Definitions

9. The following terms are used in this RPG with the meaning specified:

Current policy assumptions are those assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances.

Inflows are cash and cash equivalents projected to be received or accrued by the entity over the time horizon of the projections.

Long-term fiscal sustainability is the ability of an entity to meet service delivery and financial commitments both now and in the future.

Outflows are cash and cash equivalents projected to be paid or accrued by the entity over the time horizon of the projections.

A projection is forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions.

Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSASs) are set out in Appendix A.

Determining Whether to Report Long-Term Fiscal Sustainability Information

10. In determining whether to report long-term fiscal sustainability information, an entity needs to assess whether potential users exist for prospective financial information.

11. Long-term fiscal sustainability information is broader than information derived from the financial statements. It includes projected inflows and outflows related to the provision of goods and services and programs providing social benefits using current policy assumptions over a specified time horizon. It therefore takes into account decisions made by the entity on or before the reporting date that will give rise to future outflows that do not meet the definition of and/or recognition criteria for liabilities at the reporting date. Similarly it takes into account future inflows that do not meet the definition of and/or recognition criteria for assets at the reporting date.

12. Assessments of long-term fiscal sustainability use a broad range of data. These data include financial and non-financial information about future economic and demographic conditions, assumptions about country and global trends such as productivity, the relative competitiveness of the national, state or

local economy and expected changes in demographic variables such as age, mortality, morbidity, fertility, gender, income, educational attainment and workforce participation.

13. The relevance of reporting long-term fiscal sustainability information should be considered in the context of that entity's funding and capacity to determine service delivery levels. There are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics:

    (a) Significant tax and/or other revenue raising powers;

    (b) Powers to incur significant debt; or

    (c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

Reporting Boundary

14. Use of the same reporting boundary as for the financial statements enhances the understandability of projections and increases their usefulness to the users of general purpose financial reports (GPFRs).

15. An entity may report long-term fiscal sustainability information using another reporting boundary, such as the General Government Sector (GGS). This may be to enhance consistency and comparability with other jurisdictions or because there are other indicators that are used to assess long-term fiscal sustainability based on another reporting boundary. Entities providing information on the GGS are encouraged to also present information in accordance with IPSAS 22, *Disclosure of Financial Information about the General Government Sector*.

Reporting Long-Term Fiscal Sustainability Information

16. Long-term fiscal sustainability information prepared in accordance with this RPG should enable users to assess various aspects of the long-term fiscal sustainability of the entity, including the nature and extent of financial risks that the entity faces.

17. The form and content of an entity's long-term fiscal sustainability information will vary depending on the nature of the entity and the regulatory environment in which it operates. A single presentation approach is unlikely to satisfy the objectives of financial reporting. To meet the objectives[2] and QCs of

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[2] The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports for accountability purposes and for decision-making purposes. See Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) for further details.

financial reporting while taking into account the constraints[3], long-term fiscal sustainability information will usually include the following components:

(a) Projections of future inflows and outflows, which can be displayed in tabular statements or graphical formats, and a narrative discussion explaining the projections (see paragraphs 21–26 and 56);

(b) A narrative discussion of the dimensions of long-term fiscal sustainability including any indicators used to portray the dimensions (see paragraphs 27–40 and 57); and

(c) A narrative discussion of the principles, assumptions and methodology underlying the projections (see paragraphs 41–53 and 58).

18. The projections reported in long-term fiscal sustainability information generally reflect conditions of uncertainty. The projections are derived from models that rely on assumptions around which there is some uncertainty. In order for long-term fiscal sustainability information to faithfully represent an entity's projected future flows, assumptions used should be based on the best available information.

19. Long-term fiscal sustainability information may be published as a separate report or as part of another report. It may be published at the same time as the entity's GPFSs or at a different time.

20. A controlled entity should ensure that the information reported is consistent with information reported by its controlling entity.

Presenting Projections of Future Inflows and Outflows

21. An entity should present projections of future inflows and outflows, including capital expenditure. The projections should be prepared on the basis of current policy assumptions, and assumptions about future economic and other conditions.

22. An entity should assess the extent to which it can draw on the assumptions, projections and indicators prepared by other entities, such as Ministries of Finance, or from other sources of information, rather than preparing the information itself, as this can reduce the cost of reporting. Such an assessment considers whether such information meets the QCs. Where an entity has a budget or forecast that meets the definition of a projection, this information can be used for the relevant time period or periods.

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3 The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework* for further details.

23. Projections can be displayed in tabular statements or graphical formats providing details of the programs and activities giving rise to outflows and identifying the sources of inflows. In determining the format of tabular statements entities need to balance considerations of understandability and relevance. Presentation of a large number of time periods between the reporting date and the end of the time horizon provides a more complete information set, but increases the risk of information overload and the impairment of understandability.

24. An entity should ensure that its choice and presentation of projections is not skewed to present a misleadingly favorable or unfavorable picture. The formats and terms used should also be consistent between reporting periods.

Time Horizon

25. In selecting an appropriate time horizon an entity needs to balance the QCs of verifiability, faithful representation and relevance. The further the end of the time horizon is from the reporting date, the more future events are captured. However, as the time horizon increases, the assumptions underpinning the projections become less robust and potentially less verifiable. Conversely, excessively short time horizons may increase the risk that the consequences of events outside the time horizon may be ignored, thereby reducing the relevance of projections.

26. The length of the time horizon will reflect the characteristics of the entity. It is likely to be influenced by the characteristics of the entity, including aspects such as the longevity of key programs, the level of dependence on other entities for funding, the estimated lives of major items of property, plant, and equipment, such as infrastructure networks, and the time horizons adopted by other comparable entities providing prospective information.

Addressing the Dimensions of Long-Term Fiscal Sustainability

27. An entity reporting long-term fiscal sustainability information should include a narrative discussion on each of the dimensions of long-term fiscal sustainability. This RPG discusses three inter-related dimensions of long-term fiscal sustainability, as follows:
    - Service;
    - Revenue; and
    - Debt.

28. The dimensions are inter-related as changes in one dimension affect the other dimensions. For example, future services and entitlements to beneficiaries (the service dimension) are funded by revenue and/or debt. A single dimension can be analyzed by holding the other two dimensions constant. For example, by holding the existing levels of services and revenues constant an entity can illustrate the effect of such assumptions on the level of debt. The relationships

between the dimensions of long-term fiscal sustainability are illustrated in Appendix B.

29. There are two aspects to each dimension: capacity and vulnerability. Capacity is the ability of the entity to change or influence the dimension, and vulnerability is the extent of the entity's dependence on factors outside its control or influence.

30. An entity can use indicators to present the dimensions of long-term fiscal sustainability. An entity should choose its indicators based on their relevance to the entity. Examples of indicators are provided in the Glossary of Indicators in Appendix C.

Service Dimension

31. The service dimension considers the volume and quality of services to recipients and entitlements to beneficiaries over the period of the projections, given current policy assumptions on revenue from taxation and other sources, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to maintain or vary the volume and quality of services it provides or the entitlement programs it delivers. It also focuses attention on whether the entity is vulnerable to factors such the willingness of recipients and beneficiaries to accept reductions in services and entitlements or vulnerable because it does not have the ability to determine or vary service levels, for example where another level of government determines the level of services to be provided.

32. By reflecting the impact of current policy assumptions on revenue from taxation and other sources, and on debt, long-term fiscal sustainability information can present the amounts available for the provision of goods and services. Users can contrast this information with the entity's service delivery commitments, and thereby evaluate the sustainability of the provision of services.

33. A factor to consider in making such comparisons is the extent to which expenditure on certain programs is likely to increase more steeply than the overall levels of expenditure of the entity. This may be because the number of beneficiaries is projected to increase for a particular program or because costs associated with certain programs, such as healthcare, are projected to increase more quickly than the general inflation rate. For example, due to demographic and technological changes, the cost of healthcare as a proportion of overall government expenditures might be projected to increase over the period of projections.

34. For capital intensive activities the service dimension also involves an assessment of the useful lives and replacement cycles of items of property, plant, and equipment.

Revenue Dimension

35. The revenue dimension considers taxation levels and other revenue sources over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to vary existing taxation levels or other revenue sources or introduce new revenue sources. It also focuses attention on factors such as whether the entity is vulnerable to the unwillingness of taxpayers to accept increases in taxation levels, and the extent of its dependence upon revenue sources outside its control or influence.

36. An example of an indicator of the revenue dimension is the proportion of total revenues that are received from entities at other levels of government or from international organizations. For example, a local government entity may be able to maintain or increase property taxes, but be partially dependent upon a mixture of general grants and specific grants from national and/or state governments. As policies for the provision of services and for managing debt are projected, the level of revenue required to fund such policies can be presented. This information assists users in assessing the entity's ability to maintain or increase its levels of revenue and thereby in evaluating the sustainability of its sources of revenue.

37. Generally, an entity which has a limited ability to vary levels of revenue from taxation and other sources is likely to be highly dependent upon funding decisions by entities at other levels of government. If inter-governmental transfers have constitutional or other legal underpinning, this may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of continuing to receive stable revenues. This information assists users in assessing the entity's vulnerability to decisions outside its control.

Debt Dimension

38. The debt dimension considers debt levels over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, and revenue from taxation and other sources. This dimension focuses attention on the capacity of the entity to meet its financial commitments as they come due or to refinance or increase debt as necessary. It also focuses attention on whether the entity is vulnerable to market and lender confidence and interest rate risk.

39. The level of net debt is important for an assessment of the debt dimension, as, at any reporting date, it represents the amount expended on the past provision of goods and services that has to be financed in the future. Therefore, this indicator is likely to be relevant for many entities. By projecting current policy assumptions for the provision of goods and services, and for revenue from taxation and other sources, projected levels of net debt can be presented.

This information assists users in assessing the entity's ability to meet its financial commitments as they come due or to maintain, refinance or increase its levels of debt and thereby evaluate the sustainability of the entity's debt.

40. At national levels a factor to consider in presenting such projections is whether to distinguish between: (a) the primary balance, which is total projected government spending, excluding interest payable on debt, minus tax revenues, and (b) the overall balance, which is the primary balance including outflows related to interest payable on debt. At sub-national levels or for international organizations the focus may be on net debt as a percentage of total revenues. Increases in this indicator show that an increasing proportion of revenues will be required for debt servicing, thereby diverting resources from service delivery, and that the projected level of an entity's debt may be unsustainable.

Principles and Methodologies

Updating Projections and Frequency of Reporting

41. While regular updates are desirable, this RPG acknowledges that annual updating may not be realistic for all entities. However, there is generally an inverse relationship between the robustness of assumptions on which projections are made and the amount of time since they were made. During periods of global financial volatility the risk of projections made some time before the reporting date becoming outdated increases, with a consequent reduction of the ability of such information to meet the objectives of accountability and decision making. In this situation, an entity should consider updating its projections on a more frequent basis. An entity should also consider updating its projections after significant or major unexpected events such as natural disasters or other emergencies.

Impact of Legal Requirements and Policy Frameworks

42. In some jurisdictions reporting long-term fiscal sustainability information is governed by a legal or regulatory framework that applies at the national or state level or through international arrangements. There may also be legal requirements for local government. These might include balanced budget requirements. These requirements are likely to specify or otherwise affect the principles, assumptions and methodologies an entity should use in calculating and disclosing its projections.

Current Policy, Demographic and Economic Assumptions

43. Where flows for particular programs and activities are individually modeled, the policy assumptions should be based on the continuation of current legislation or regulation with departures where appropriate. Those assumptions (referred to as "current policy assumptions") should be applied consistently through-out the entire projection period. The starting point for

current policy assumptions should be legislation or regulation currently in force. However, there may be instances where a departure from current legislation or regulation may be appropriate, for example:

(a) Where changes to current legislation or regulation have been enacted before the reporting date, and where those changes have a specific implementation date within the time horizon of the projections;

(b) Where the provisions in current legislation or regulation are internally inconsistent; or

(c) Where current legislation or regulation has a termination date, e.g., "sunset provisions".

44. Current policy assumptions may be affected by legal changes that have been enacted before the reporting date, which have a specific implementation date within the time horizon of the projections. In these circumstances, assuming current legislation or regulation remains in force for the entire projection period will not be appropriate.

45. An example of current legislation or regulation that is internally inconsistent is a social security program which has legal provisions that make it unlawful to make payments once an earmarked fund is exhausted, although entitlements of beneficiaries will continue after the exhaustion of that fund. Assuming that the fund will not meet obligations once it is exhausted might reflect a strict legal position, but an entity may need to assess whether the presentation of projections on such a basis underestimates projected outflows and therefore the extent of the fiscal challenge facing the social security program. In this situation an entity may calculate its projections based on current policy assumptions despite legal restrictions.

46. Current legislation or regulation may have a termination date, e.g., sunset provisions, whereby it terminates after a specific period. In many cases there may be a strong probability that such programs will be replaced by similar programs. Adopting a strict legal termination principle could underestimate projected outflows, and therefore impair the usefulness of the information.

Approach to Revenue Inflows

47. Significant revenue inflows from taxation and other sources, such as inter-governmental transfers, may be individually modeled based on current policy assumptions. Significant sources of taxation and other revenue inflows that are not modeled individually are projected to grow (or diminish) in relation to a variable such as gross domestic product (GDP) or a specified inflation index.

48. Other revenue inflows, such as royalties from natural resources, may also be projected to grow in line with GDP or an index. They may also be individually

modeled to address specific circumstances, such as when the natural resource is expected to be depleted.

Approach to Age-Related and Non-Age-Related Programs

49. Age-related programs are often subject to eligibility criteria such as age and other demographic factors. In making projections, programs and activities that are age-related may be distinguished from non-age- related programs. Age-related programs may be individually modeled while non-age-related programs may be projected to increase in line with other variables, such as GDP, or to be constant in real terms. Such an approach to non-age-related programs provides some flexibility, as it allows above GDP/real terms increases in some programs and activities to be offset by lower increases or spending declines in other areas.

Demographic and Economic Assumptions

50. Demographic assumptions are likely to include fertility, mortality and migration rates, and workforce participation rates. Economic assumptions are likely to include economic growth rates and inflation. Other economic assumptions may include environmental factors, such as the impact of the depletion and degradation of ecosystems and the depletion of water and finite natural resources on economic growth.

Reasonableness of Assumptions

51. Projections of inflows and outflows should be based on current policy assumptions and economic and demographic assumptions, which are reasonable in the context of the factors discussed in paragraph 18.

Inflation and Discount Rates

52. There are two main approaches to incorporating the effect of price inflation in projections. Inflation may be taken into account in making projections or projections may be made at current prices (i.e., prices prevailing at the reporting date). If the projections include inflation, then the discount rate should also include inflation. If the projections are at current prices, the discount rate should exclude inflation.

Sensitivity Analysis

53. Many assumptions on which projections are based are inherently uncertain. In some cases small changes in variables can have significant impacts on the projections. The use of sensitivity analysis will help users to understand the impact of significant changes in demographic and economic assumptions on the projections.

Disclosures

54. The entity should disclose information that enables users of its long-term fiscal sustainability information to assess the projected long-term fiscal sustainability of the entity. An entity should make any additional disclosures necessary to meet the objectives of financial reporting.

55. An entity should disclose the following information:

    (a) The name of the entity;

    (b) The financial statements to which the long-term fiscal sustainability information relates;

    (c) Where different, the names of the entities within the reporting boundary for long-term fiscal sustainability information that are different to those for the financial statements;

    (d) Where the entity is a controlled entity, the identity of the controlling entity;

    (e) The date at which a full set of projections was made;

    (f) The basis and timing of subsequent updating of that full set of projections; and

    (g) When an entity uses projections and indicators prepared by other entities or from other sources of information, the names of those entities or other sources, and the information that has been used.

56. The narrative discussion of the projections should include disclosure of the following information:

    (a) The sources of significant revenue inflows from taxation and other sources;

    (b) An overview of the current policy assumptions for significant revenue inflows from taxation and other sources, such as taxation threshold levels and allowances;

    (c) The sources of significant outflows including capital expenditure;

    (d) An overview of the current policy assumptions for the significant outflows including capital expenditure;

    (e) Whether the projections are modeled individually or in aggregate;

    (f) An explanation of the changes in projections between reporting dates and the reasons for those changes;

(g) An explanation that projections are not forecasts and that it is unlikely that projections over the specified time horizon will match the actual outcome and the extent of the difference will depend upon a range of factors, including the future actions of the entity in meeting any identified fiscal challenge;

(h) An explanation of any modifications of formats between reporting periods and the reasons for such changes;

(i) The time horizon used for the projections and the reasons for selecting that time horizon; and

(j) Where an entity changes the time horizon from that used in the previous reporting period, the reason for such a change.

57. The narrative discussion of the dimensions of long-term fiscal sustainability should include disclosure of the following information:

(a) An analysis of significant changes in the indicators compared with those of the previous reporting period;

(b) Changes in the indicators used to report long-term fiscal sustainability information from the previous reporting period, and the reasons for such changes; and

(c) Where an entity uses indicators that are based on amounts derived from non-IPSAS-based information and the indicators affected.

58. An entity should disclose the principles, assumptions and methodology that underpin the projections including the following information:

(a) Key aspects of governing legislation and regulation;

(b) Underlying macro-economic policy and fiscal frameworks, including details of where other publicly available reports on these policies and frameworks can be accessed, including documents outside the GPFRs;

(c) The key current policy assumptions and the key demographic and economic assumptions that underpin the projections;

(d) Its policy for reviewing and updating current policy assumptions and, demographic and economic assumptions;

(e) An explanation of any significant current policy assumptions that depart from current legislation or regulation;

(f) An explanation of significant changes in the principles, assumptions and methodologies from the previous reporting period, the nature and extent of these changes, and the reasons for such changes;

(g) The results of any sensitivity analyses that could have a significant impact on the projections;

(h) The discount rates applied and the basis on which the discount rate has been determined; and

(i) The approach to inflation and the reason for this approach.

Appendix A

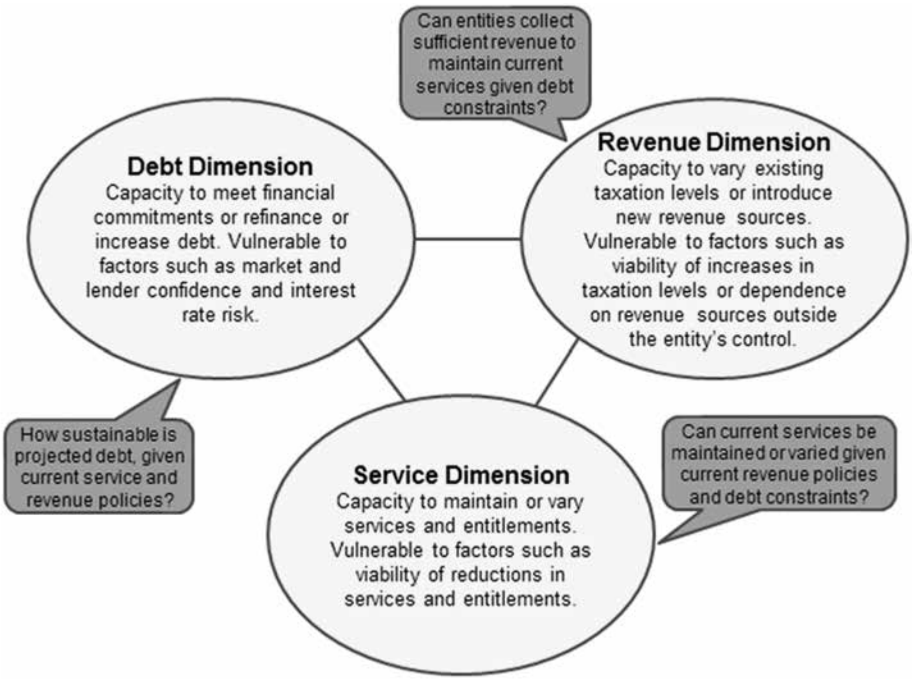
Terms in this RPG Defined in IPSASs

Term	Definition
Assets	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.
Cash	Comprises cash on hand and demand deposits.
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).
Controlling entity	An entity that has one or more controlled entities.
General government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting.
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/ equity, other than increases relating to contributions from owners.

Appendix B

Relationships Between the Dimensions of Long-Term Fiscal Sustainability

This Appendix illustrates the two aspects (capacity and vulnerability) of each of the three dimensions and the relationship between the three dimensions.



Appendix C

Glossary of Indicators

This Appendix lists examples of indicators. It is not intended to be an exhaustive list.

Government Finance Statistics Reporting Guidelines

Where an indicator includes a defined term, that term is shown in italics and its definition is shown after the indicators.

- **Gross debt, total:** Total gross debt—often referred to as "total debt" or "total debt liabilities"—consists of all *liabilities* that are *debt instruments*. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Net debt:** Net debt is calculated as gross debt minus *financial assets* corresponding to *debt instruments*.[4]
- **Net financial worth:** Net financial worth of an *institutional unit* (or grouping of units) is the total value of its *financial assets* minus the total value of its outstanding *liabilities*.[4]
- **Net worth:** Net worth of an *institutional unit* (or grouping of units) is the total value of its *assets* minus the total value of its outstanding *liabilities*.[4]
- **Overall balance:** This term corresponds to the GFS 1986 terminology of "Overall Deficit/Surplus," which is defined as revenue plus grants received less expenditure less "lending minus repayments." The balance so defined is equal (with an opposite sign) to the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes. The basis of this balance concept is that government policies are held to be deficit- or surplus-creating, and thus the revenue or expenditures associated with these policies are "above the line." Borrowing or a rundown of liquid assets, however, is deficit financing or "below the line." It should be noted that the term "lending minus repayments" included above the line covers government transactions in debt and equity claims on others undertaken for purposes of public policy rather than for management of government liquidity or earning a return.[5]
- **Primary balance:** The overall balance, excluding interest payments. Since interest payments represent the cost of past debt, and the determinants of future debt that are under policy control of government are other spending and revenue measures exclusive of interest payment, the primary balance is of particular

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4 Source: International Monetary Fund: *Public Sector Debt Statistics—Guide for Compilers and Users* 2011.

5 Source: International Monetary Fund: *Manual on Fiscal Transparency (2007).*

importance as an indicator of the fiscal position in countries with high levels of debt.[5]

Underlying Definitions

- **Debt instrument:** A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Economic assets:** Economic assets are entities (i) over which economic ownership rights are enforced by institutional units, individually or collectively, and (ii) from which economic benefits may be derived by their owners by holding them or using them over a period of time.[4]
- **Financial assets:** Financial assets consist of financial claims plus gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability.[6]
- **Institutional unit:** An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities.[6]
- **Liability:** A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor).[6]

Other Sources

- **Fiscal gap:** The fiscal gap is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP).[7] More specifically, the fiscal gap is the net present value of projected spending[8] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. (Source: US Federal Accounting Standards Advisory Board: Statement of Federal Financial Accounting Standards 36: *Comprehensive Long-Term Projections for the U.S. Government* 2009).

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6 Source: International Monetary Fund: Public Sector Debt Statistics—Guide for Compilers and Users 2011.

7 GDP is the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports-imports).

8 Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("non-interest spending").

- **Inter-temporal budget constraint:** The inter-temporal budget constraint is satisfied if the projected outflows of the government (current public debt and the discounted value of all future expenditure, including the projected increase in age-related expenditure) are covered by the discounted value of all future government revenue. (Source European Commission: *Sustainability Report*: 2009).
- **Net Debt/Total Revenues:** Net debt as a proportion of total revenues. (Source Canadian Public Sector Accounting Board (PSAB): Statement of Recommended Practice 4 (SORP 4), *Indicators of Financial Condition*: 2009).

Basis for Conclusions

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

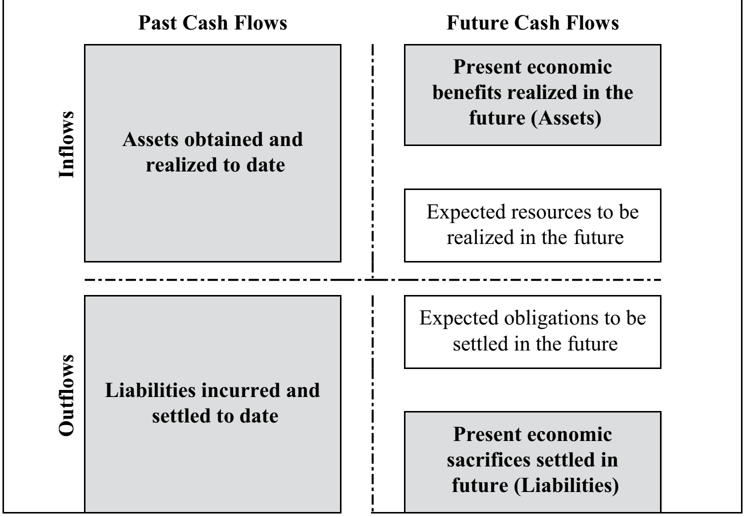
Background

BC1. The IPSASB initially launched a project on accounting for social policy obligations (subsequently re-termed social benefits) in 2002. This led to the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Governments*, in January 2004. Following an analysis of responses to that ITC, the IPSASB began to develop proposals for accounting for obligations related to different sub-categories of social benefits. In late 2006, due to failure to agree on recognition points and measurement requirements for liabilities, the IPSASB decided not to develop further proposals on recognition and measurement at that time.

BC2. As an interim step the IPSASB developed proposals for the disclosure of amounts to be transferred to those eligible at the reporting date for cash transfers (benefits settled in cash). It expressly did not propose the disclosure of obligations and liabilities. ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households,* was issued in March 2008.

BC3. The deliberations on identifying the point at which liabilities for social benefits arise had led the IPSASB to the view that the financial statements cannot provide all the information that users need on social benefits. This is illustrated in Exhibit One below where the shaded boxes indicate information provided in the financial statements. The IPSASB considered that before launching any further project it should consult constituents. Therefore the IPSASB raised this issue in a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement,* and issued a Project Brief, *Long-Term Fiscal Sustainability Reporting.* Both these documents were issued at the same time as ED 34.

Exhibit One
Supplementing Information provided in the Statement of Financial Position



BC4. In October 2008 the IPSASB reviewed responses to all of the above documents. In the light of these responses, it was decided not to develop ED 34 into an IPSAS. The IPSASB also noted that a large majority of respondents agreed that the financial statements cannot convey sufficient information to users about the long-term financial implications of governmental programs providing social benefits.[9] In light of this view the IPSASB decided to initiate a project on long-term fiscal sustainability (subsequently re-termed “Reporting on the Long-Term Sustainability of Public Finances”). This led to the issue of a Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances,* in November 2009. Drawing on existing practice the Consultation Paper put forward the case for reporting long-term fiscal sustainability information, made suggestions on how such information might be presented and sought the views of constituents. The majority of respondents to the Consultation Paper favored the continuation of the project, although many said that they preferred the IPSASB to develop guidelines rather than requirements.

BC5. In light of the responses to the Consultation Paper, the IPSASB developed ED 46.RPG, *Reporting on the Long-Term Sustainability of a Public Sector*

[9] Further work on proposals for the recognition and measurement of liabilities arising from obligations to deliver social benefits has progressed indirectly in Phase 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* project. This phase deals with elements, and includes the development of the definition of a liability and other relevant issues such as whether the power to tax is an asset. This work is likely to influence the approach to recognizing and measuring liabilities related to social benefits. The IPSASB decided to reactivate its project on social benefits at its June 2013 meeting.

Entity's Finances, which was issued in October 2011. This ED proposed non-authoritative guidance for public sector entities reporting long-term fiscal sustainability information.

BC6. The IPSASB has further developed its thinking on reporting long-term fiscal sustainability information in the course of its project on *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and, in particular, in Chapter 2 of that Framework. Chapter 2: *Objectives and Users of General Purpose Financial Reporting* reflects the view that, although the financial statements are at the core of financial reporting, a more comprehensive scope is necessary to meet the needs of users. That scope includes prospective financial information. The IPSASB has also noted that projected outflows relating to obligations as a result of past decisions and projected inflows related to sovereign powers and taxation powers may not be recognized or may only be partially recognized in the statement of financial position and the statement of financial performance. Therefore, in order to meet the financial reporting objectives of accountability and decision making, an entity should provide users with information on future inflows and outflows that supplements information on the entity's financial position in the financial statements.

BC7. The IPSASB acknowledges that the rationale for reporting long-term fiscal sustainability information in paragraph BC6 might indicate that for some entities such reporting should be required. However, the IPSASB concluded that it would be premature to issue an authoritative pronouncement, because reporting long-term fiscal sustainability information in GPFRs is an area where practice is developing and the IPSASB wishes to encourage innovative and flexible approaches. This approach is consistent with the views of the majority of respondents to ED 46. The IPSASB notes that paragraph 4 of the RPG notes that it is good practice to follow this RPG.

Scope

BC8. The IPSASB considered whether the scope of the RPG should be limited to the consolidated national and whole-of-government levels. The IPSASB acknowledged that reporting long-term fiscal sustainability information is particularly relevant at these levels, but concluded that there might be significant user demand for such information at sub-national levels. The IPSASB therefore concluded that a narrow scope limited to the national and whole-of-government levels is not justified. The factors considered by the Board in determining whether an entity should report long-term fiscal sustainability information are discussed in paragraphs BC14-BC17.

Definitions

Long-Term Fiscal Sustainability

BC9. The Consultation Paper noted that there is no universally accepted definition of long-term fiscal sustainability and included a working definition that long-term fiscal sustainability is "the ability of government to meet its service delivery and financial commitments both now and in the future." The IPSASB acknowledged the view that this definition is insufficiently rigorous and that a definition should be adopted that provides users with a clearer indication whether an entity's current economic position is sustainable. Such an approach might involve (a) linking current service delivery obligations to the maintenance of current taxation levels and (b) focusing on projected debt paths. An entity that can only meet current service delivery obligations and financial obligations by increasing taxation or current debt levels is identified as being in an unsustainable position. Macro-economists tend to adopt this more rigorous approach and focus on "explosive" debt paths, which is a term that connotes that existing service levels and existing benefits from entitlement programs cannot be sustained without major increases in levels of indebtedness.

BC10. When this RPG was issued, the IPSASB decided to retain the definition of long-term fiscal sustainability used in the Consultation Paper for ED 46 and subsequently for this RPG, except for widening the scope to reflect that it can apply to all public sector entities (except [Government Business Enterprises]) (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016) rather than limiting it to governments. In coming to this conclusion the IPSASB noted the need for governments and public sector entities to both (a) provide services and meet obligations relating to entitlement programs and (b) meet financial obligations, principally debt servicing. The IPSASB also noted that many governments have sovereign powers to enact legislation for new taxation sources and to vary the levels of existing taxation, while acknowledging that in a global environment the ability to increase taxation might be practically constrained by a number of considerations. The IPSASB took the view that, provided an entity gives appropriate attention to the dimensions of long-term fiscal sustainability, as explained in paragraphs 27–40, users will be given adequate information about whether an entity can maintain existing service levels, meet obligations to the current and future beneficiaries of entitlement programs and meet financial obligations without increasing revenue from taxation and other sources or increasing borrowing.

Projections, Forecasts and Budgets

BC11. Several respondents to ED 46 suggested that the relationship between projections, forecasts and budgets should be clarified. Given that there are no universally accepted definitions of these terms, the IPSASB decided to develop a definition of a projection to clarify the characteristics of information that should be used in calculating the projections and to ensure that only calculations that meet these characteristics are within the scope of the RPG.

BC12. In developing its definition of a projection the IPSASB considered whether forward-looking financial information should be based on a strict adherence to legislation or regulation in force at the reporting date, or whether specific departures from legislation or regulation in force at the reporting date might be appropriate. The IPSASB recognized that there may be limited cases where departures from current legislation or regulation may be appropriate in order to provide more relevant information. A projection is therefore defined as "forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions." Current policy assumptions are those "assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances." Circumstances where departures from current legislation or regulation are appropriate are detailed in paragraph 43 and discussed in paragraphs BC31-34.

BC13. Budgets and forecasts aim to provide details of intended outcomes. In contrast projections are not intended to provide approximations of actual outcomes. A budget is a plan of an entity's anticipated revenues or receipts and anticipated expenses or expenditure over a specified period. It may be related to service outputs or outcomes in the period. A forecast provides prospective information that includes anticipated actions and interventions by the entity although these may not be reflected in current legislation or regulation or within the limited departures inherent in the definition of a projection. The IPSASB agreed that some of the information in budgets or forecasts might also be used for projections.

Determining Whether to Report Long-Term Fiscal Sustainability Information

BC14. As discussed in paragraph BC8 the IPSASB concluded that the scope of the RPG should not be limited to particular levels of government. However, the IPSASB acknowledged that reporting long-term fiscal sustainability information might not be appropriate for all entities.

BC15. The Consultation Paper questioned whether reporting long-term fiscal sustainability information is appropriate for individual controlled entities. This reservation was based on a tentative view that (a) the cost of producing the information for such entities is likely to be greater than the benefits to users, (b) the production of separate reports and disclosures by individual entities within an economic entity might be confusing to users and (c) it could be misleading if entities with limited tax-raising powers and a dependence on resources from entities at other tiers of government provide projections that are contingent on taxation decisions over which they have little or no control. Some respondents to the Consultation Paper challenged this view and suggested that there are cases where users for long-term fiscal sustainability information of controlled entities can be identified. The example of a local government entity controlled by a state or provincial government was cited. These respondents proposed that the test for whether an entity reports long-term fiscal sustainability information should be to assess whether potential users exist for this type of information. The IPSASB was persuaded by these arguments and the RPG reflects these views in paragraphs 12 and 13.

BC16. The IPSASB acknowledged that direct evidence of the existence of users of long-term fiscal sustainability information might not be readily available. The IPSASB sought to identify characteristics which might indicate the existence of users across the three dimensions of long-term fiscal sustainability. The IPSASB had reservations about whether there would be significant numbers of users to justify the costs of reporting if entities did not have one or more of the following characteristics:

(a) Significant tax and/or other revenue raising powers;

(b) Powers to incur significant debt; or

(c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

BC17. The IPSASB believes that reporting long-term fiscal sustainability information is likely to be relevant at the whole of government level, consolidated national level, and for major sub-national entities such as regions, provinces, states and large local government entities (for examples, cities), which have tax raising powers enabling them to generate a significant proportion of their total revenues. The IPSASB remains of the view that reporting long-term sustainability information is unlikely to be appropriate for individual government departments and entities. This is because often they do not have tax raising powers, their expenditure is controlled through appropriations, and they do not have powers to incur debt.

Presenting Projections of Future Inflows and Outflows

BC18. The Consultation Paper considered three models for reporting long-term fiscal sustainability information and suggested that (a) the provision of additional statements providing details of projections and (b) summarized projections in narrative reporting were appropriate. Some respondents suggested that, although the Consultation Paper acknowledged that these reporting approaches were not mutually exclusive, the IPSASB should highlight that reporting long-term fiscal sustainability information just by displaying projections in statements is insufficient to meet user needs and that other presentation methods need to be deployed. The IPSASB was persuaded by this view and agreed to reflect this in paragraph 17 of the RPG).

BC19. The IPSASB considered whether it should recommend time horizons for projections for entities at particular levels of government. It acknowledged the view that standard time horizons for particular types of public sector entity might enhance comparability. The IPSASB decided that such benchmarks would be over-prescriptive and impractical. The scope of the RPG is such that standard time horizons would have to be determined for a wide range of entities, including individual reporting entities.[10] In addition the fiscal autonomy of entities at the same level of government can differ markedly between jurisdictions. The IPSASB concluded, however, that it is good practice for entities to explain the reason for the time horizons that they select. The IPSASB considers that the extent of an entity's dependence on other entities for funding will have an impact on time horizons; the higher the level of dependence, the higher the likelihood of shorter time horizons.

BC20. The Consultation Paper included illustrative examples of tabular statements showing 75 year projections for key programs and activities. The IPSASB noted the view of some respondents that a focus on the position at the end of the time horizon may obscure events between the reporting date and the end of the time horizon. The IPSASB accepted this view and included guidance on the need to balance the QCs of verifiability, faithful representation and relevance in displaying projections in paragraph 25 of the RPG.

Addressing the Dimensions of Long-Term Fiscal Sustainability

BC21. The IPSASB considered that providing a flexible framework for the disclosure of information might help entities to organize the way in which they communicate information and ensure that information is a faithful representation of an entity's long-term fiscal sustainability information.

BC22. ED 46 included three dimensions of long-term fiscal sustainability, as follows:

- Fiscal capacity;
- Service capacity; and
- Vulnerability.

BC23. The description of vulnerability was derived from the definition of vulnerability in Statement of Recommended Practice 4 (SORP-4), *Indicators of Financial Condition* issued by the Canadian Public Sector Accounting Board (PSAB). The definition in SORP-4 is "the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others." The IPSASB considered that a variant of

10 For example, such entities might include school boards or bodies responsible for water and drainage.

this notion is particularly important for entities at sub-national levels which have limited taxation powers and are therefore exposed to decisions, over which they have no or very limited control, taken by other entities at other levels of government.

BC24. The descriptions of the other two dimensions in ED 46 were derived from the US Governmental Accounting Standards Board's (GASB)[11] definitions of "fiscal capacity" and "service capacity." The GASB defines fiscal capacity as "the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis" and service capacity as "the government's ability and willingness to meet its commitments to provide services on an ongoing basis."

BC25. When developing the RPG based on ED 46, the IPSASB considered whether the notion of vulnerability in the ED was too narrow and whether vulnerability is a more pervasive factor in the analysis of the long-term fiscal sustainability of an entity's finances. The IPSASB concluded that vulnerability is an aspect of all three dimensions. Therefore, the IPSASB decided to (a) explain how the notion of vulnerability affects each dimension of long-term fiscal sustainability and (b) change the name of the vulnerability dimension to the revenue dimension because its description relates to changes in revenues.

BC26. The IPSASB also noted that the dictionary definition of "fiscal" includes revenue[12] while the description of fiscal capacity relates to the ability of the entity to meet financial commitments, in other words, its ability to maintain and service its debt. Therefore the IPSASB decided that the name of this dimension should be changed to the debt dimension to more closely reflect the description. The renaming of these two dimensions required a modification to the service capacity dimension so that the wording of the three dimensions is consistent. The IPSASB acknowledged that the dimensions are inter-related.

BC27. The IPSASB noted that the approach taken by the PSAB and the GASB had similarities to the "dimensions" of sustainability developed by Allen Schick[13] and discussed in the Consultation Paper.

BC28. One of the dimensions that Schick discussed was "economic growth." The IPSASB considered that explicitly introducing a dimension of economic growth was inappropriate because the determinants of economic growth are complex and not under the control of the reporting entity. However,

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11 *Preliminary Views of the Governmental Accounting Standards Board on Major Issues related to Economic Condition Reporting: Financial Projections*. (Governmental Accounting Standards Board: Norwalk, CT, USA, November 2011).

12 The definition of fiscal is "of or relating to taxation, public revenues, or public debt" (Webster's Ninth New Collegiate Dictionary, 1984).

13 Allen Schick, *Sustainable Budget Policy: Concepts and Approaches* (OECD: Paris, 2005).

assumptions about economic growth will be critical to the development of projections and are likely to feature heavily in sensitivity analyses.

Principles and Methodologies

BC29. The Consultation Paper discussed the principles that should be adopted for the inclusion of programs and activities in reporting long-term fiscal sustainability information and methodologies central to the outcome of projections. The areas addressed included whether projections should be based on current or future policy, the approach to revenue inflows, the approach to age-related and non-age-related programs and the approach to sensitivity analysis. The IPSASB considered whether, in order to meet the qualitative characteristic of comparability, the IPSASB should make firm recommendations on good practice.

BC30. The IPSASB did not consider it appropriate to make firm recommendations on good practice because (a) the scope of the RPG includes all public sector entities and practice that is appropriate at one level of government may not be suitable elsewhere in the public sector, (b) while reporting long-term fiscal sustainability information has become a feature of financial management in an increasing number of jurisdictions it is at an early stage of development and (c) it is not the intention of the IPSASB to usurp the role of other professional groups with expertise in this area. In some cases the IPSASB has considered it appropriate to express a view on a preferred high level approach. For example, the IPSASB has taken the view that projections are likely to be most useful when they are based on current policy assumptions and encompass both inflows as well as outflows. The IPSASB also noted that, at the national level, the Organisation for Economic Cooperation and Development has recommended that projections should be updated on an annual basis.

Current Policy Assumptions

BC31. Paragraphs 40–42 of ED 46 explained that an entity can depart from using current policy to calculate its projections (a) where there is a conflict between current policy and legal obligations and (b) where a policy has "sunset provisions."

BC32. The IPSASB introduced the term "current policy assumptions" to clarify that current policy means current legislation or regulation with departures where appropriate. Current policy assumptions are applied to the entire projection period for inflows or outflows that are individually projected. The RPG gives examples of where a departure may be appropriate in paragraphs 44-46. The IPSASB noted that paragraph 58(e) of the RPG recommends that any departures from current legislation or regulation be disclosed together with the reasons for such departures.

BC33. A respondent to ED 46 raised a concern that the concept of current policy should be broader than that proposed in the ED to deal with issues such as fiscal drag. Fiscal drag refers to the phenomenon that income tax inflows grow faster than the income it is levied on because, as an individual's income grows, an increasing proportion of it is taxed at a higher rate. Fiscal drag occurs if the rates and thresholds for the taxation of individuals are not adjusted over time, and is often addressed by governments through periodic increasing of tax thresholds.

BC34. The IPSASB concluded that the issue of fiscal drag is addressed in paragraph 47 of the RPG because it permits current policy assumptions to be applied to the demographic and economic assumptions, including assumptions over inflation. When a flow such as tax is modeled it may be based on a percentage of a variable such as GDP or reflect the application of current policy assumptions to the changing circumstances reflected in the demographic and economic assumptions.

Revision of RPG 1 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC35. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

RPG 2—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

History of RPG

RPG 2, *Financial Statement Discussion and Analysis* was issued in July 2013.

Since then, RPG 2 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in RPG 2

Paragraph Affected	How Affected	Affected By
6	Deleted	The Applicability of IPSASs April 2016

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial position, financial performance and cash flows presented in the general purpose financial statements (hereafter referred to as "financial statements").

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).

3. Financial statement discussion and analysis should be presented at least annually and should use the same reporting period as that covered by the financial statements.

4. The reporting boundary for financial statement discussion and analysis should be the same as that used for the financial statements.

5. Financial statement discussion and analysis should be issued with the financial statements.

6. [Deleted]

7. Financial statement discussion and analysis should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

8. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is a legislative or regulatory requirement, or required by other externally imposed regulations. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

Definition

9. The following term is used in this RPG with the meaning specified:

   <u>Financial statement discussion and analysis</u> is an explanation of the significant items, transactions and events presented in an entity's financial statements and the factors that influenced them.

   Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSASs) are set out in Appendix A.

Identification of Financial Statement Discussion and Analysis

10. Financial statement discussion and analysis should be clearly identified, and distinguished from the financial statements and from other information.

11. Separate identification of financial statement discussion and analysis enables users to distinguish:

    (a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs;

    (b) Financial statement discussion and analysis prepared in accordance with this RPG; and

    (c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs or recommendations in RPGs (but could be the subject of guidance in other RPGs).

12. Financial statement discussion and analysis should identify the financial statements to which it relates.

Presenting Financial Statement Discussion and Analysis

13. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight into the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity's interpretation of significant items, transactions and events affecting the financial position, financial performance and cash flows of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.

14. Information in financial statement discussion and analysis should meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs)[1].

Content of Financial Statement Discussion and Analysis

15. The content of financial statement discussion and analysis should be consistent with the financial statements and the underlying items, transactions and events, as well as assumptions such as those relating to recognition and measurement.

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[1] The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* for further details.

16. Financial statement discussion and analysis should include the following, without merely replicating information in the financial statements:

    (a) An overview of the entity's operations and the environment in which it operates;

    (b) Information about the entity's objectives and strategies;

    (c) An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and

    (d) A description of the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.

17. The form and specific content of an entity's financial statement discussion and analysis should reflect the nature of the entity and the regulatory environment in which it operates.

18. Where financial statement discussion and analysis includes information that is also in the financial statements, it should not merely repeat what is in the financial statements, but should analyze and explain how items, transactions and events affect the entity's financial position, financial performance and cash flows. Financial statement discussion and analysis should include cross-references to the financial statements where appropriate to avoid duplication of information.

Overview of the Entity's Operations and Environment

19. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects its financial statements. This information assists users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior period, relating to:

    (a) The entity's mission and vision;

    (b) The entity's governance (e.g., legislative or regulatory structure, management structure);

    (c) The entity's relationships with other entities, with a focus on relationships that could significantly affect the entity's financial position, financial performance and cash flows (e.g., funding arrangements);

(d) External trends, events and developments in the legal, regulatory, social, political and macro-economic environment specific to the entity, which have or may have a significant impact on the entity's financial position, financial performance and cash flows (e.g., the impact of events in international markets on employment, the tax base, or interest rates); and

(e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

Information about the Entity's Objectives and Strategies

20. Financial statement discussion and analysis should discuss the entity's objectives and strategies relating to its financial position, financial performance and cash flows in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies. For example, such objectives and strategies could include managing surplus/deficit, and managing the levels of debt and reserves. Financial statement discussion and analysis should explain how achievement of the entity's objectives would be measured and over what time period progress would be measured.

21. Financial statement discussion and analysis should discuss significant changes in an entity's objectives and strategies from the previous period or periods.

Analysis of the Entity's Financial Statements

22. Financial statement discussion and analysis should include an analysis of significant changes and trends in an entity's financial position, financial performance and cash flows. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position, financial performance and cash flows and changes in financial position, financial performance and cash flows over a period of time.

23. Financial statement discussion and analysis should describe the significant items, transactions and events that have affected the financial position, financial performance and cash flows, without simply reiterating the information presented in the financial statements. Judgment is required in identifying the significant items, transactions and events.

24. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact should be disclosed along with the nature of and reasons for the adjustments. When financial performance measures are derived from the financial statements, those

measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs.

25. Comparative information should be disclosed for amounts presented in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statement discussion and analysis.

26. When an entity is required or elects to make its approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in other public reports. When an entity elects to include this information in its financial statement discussion and analysis, it should apply the guidance in IPSAS 24 to these disclosures.

Risks and Uncertainties

27. Financial statement discussion and analysis should discuss the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows and include an explanation of how this relates to the objectives and strategies of the entity. This information would help users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) as well as expected outcomes.

28. The principal risks and uncertainties can be external or internal risks; any description of these risks and uncertainties should cover exposures to both negative consequences and potential opportunities.

29. A discussion of how the entity manages its risks and uncertainties helps users obtain a faithful representation of the entity's exposure to risks that directly affect financial statement items, which allows them to evaluate the entity's financial position, financial performance and cash flows. Such disclosure may include the entity's decision to "self-insure" in respect of some risks, or to mitigate risk by transferring or sharing it through insurance.

30. A discussion of these risks and uncertainties would provide relevant information to users about exposure or vulnerability to concentrations of risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.

31. Risks and uncertainties that affect the financial position, financial performance and cash flows may have a pervasive effect on the financial statements. Therefore, information relating to these risks and uncertainties may be reported separately, or in relevant sections throughout financial statement discussion and analysis.

Appendix A

Terms in this RPG Defined in IPSASs

Term	Definition
Approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 2.

Background

BC1. The IPSASB approved a project in March 2008 to address "narrative reporting". In developing this RPG, the IPSASB clarified that the scope of the project was to address only those reports that provide discussion and analysis specifically relating to an entity's general purpose financial statements ("financial statements") as set out in IPSAS 1, *Presentation of Financial Statements* and not broader types of reports that may be considered general purpose financial reports as envisaged in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*). The IPSASB considers that it is important to provide narrative information related directly to the financial statements since this provides useful information for accountability and decision-making by users of financial statements.

BC2. In undertaking this project, the IPSASB considered, under its *Process for Reviewing and Modifying IASB Documents*, whether to develop guidance that was converged with *Management Commentary*, an IFRS Practice Statement. The IPSASB did not consider this approach to be appropriate because the users identified in the Practice Statement are investors whereas Chapter 2 of the *Conceptual Framework* identifies different users, which results in different information needs related to the financial statements. On this basis the IPSASB decided it was important to develop guidance on financial statement discussion and analysis specific to the public sector. Financial statement discussion and analysis assists users of public sector entities' financial statements by complementing and supplementing the financial statement explanations with insights and perspectives.

BC3. Financial statement discussion and analysis is intended to address similar matters to reports that may be termed "management discussion and analysis" and "management commentary" in various jurisdictions. However, the IPSASB did not consider those terms to accurately describe the nature of the report in relation to the financial statements. The IPSASB decided it was important to link financial statement discussion and analysis to the financial statements because financial statement discussion and analysis is intended to explain the financial statements, and not to stand alone. The IPSASB considers the term "financial statement discussion and analysis" clearly defines the scope of applicability of this RPG and its close linkage to the financial statements.

Exposure Draft 47, *Financial Statement Discussion and Analysis*

BC4. The IPSASB developed Exposure Draft (ED) 47, *Financial Statement Discussion and Analysis* which was issued in March 2012. This ED proposed that entities that prepare and present their financial statements in accordance with IPSASs should be required to prepare financial statement discussion and analysis. This meant that financial statement discussion and analysis would have the same level of authority as accrual-based IPSASs even though it related to a GPFR.

BC5. In developing the ED the IPSASB considered that financial statement discussion and analysis provides additional information necessary to meet the objectives of financial statements. Furthermore, the IPSASB considered that the benefits of providing financial statement discussion and analysis would outweigh the costs of preparing it, as the information is used in the preparation of the financial statements, and tailored to the specific circumstances of the entity. The IPSASB therefore proposed that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSASs.

BC6. Some respondents to the ED raised the concern that entities might not be able to assert compliance with IPSASs applicable to the financial statements if they did not follow the proposed requirements in the ED (if issued as an IPSAS). In particular, respondents were concerned that financial statement discussion and analysis might still be considered to be a part of the IPSAS reporting framework even though the ED explicitly stated that financial statement discussion and analysis is not a component of the financial statements. Some of these respondents suggested that this would not be an issue if the ED was developed into non-authoritative guidance, e.g., a Recommended Practice Guideline (RPG).

BC7. The IPSASB considered whether the ED should be developed as an IPSAS or an RPG. The IPSASB considered this issue in the context of whether or not authoritative pronouncements could be developed for GPFRs, an issue on which members had varying views. The IPSASB noted that the scope of its *Conceptual Framework* is not limited to general purpose financial statements.

BC8. Respondents to the ED were split on this issue with a slight majority favoring the material not becoming an IPSAS. Of those not in favor of issuing an IPSAS, the majority of respondents expressed a clear view that it should be issued as guidance similar to the proposed RPG *Reporting on the Long-Term Sustainability of an Entity's Finances*.

BC9. As a well-established area of GPFRs, an authoritative pronouncement on financial statement discussion and analysis would help entities meet the accountability objective of financial reporting since it would enable users to gain an insight into the operations of the entity from the perspective of the entity itself. Financial statement discussion and analysis is an explanation of the financial statements but is not part of the financial statements and therefore it is not required for the fair presentation of the financial statements.

BC10. On balance the IPSASB decided that the ED should be developed into an RPG. The IPSASB considers that this RPG provides useful guidance for entities and its flexible application could benefit entities in jurisdictions that have local requirements or regulations. It will also promote comparability across entities that present financial statement discussion and analysis. Furthermore, the IPSASB considers that the RPG might encourage entities that are not accustomed to presenting financial statement discussion and analysis to provide users with this information.

BC11. Because financial statement discussion and analysis contributes to meeting the accountability objective of financial reporting, the IPSASB decided that it should consider the authority of this pronouncement on financial statement discussion and analysis in the future.

Forward-Looking Information

BC12. The IPSASB considered whether it should recommend that an entity disclose forward-looking information, such as forecasts. The IPSASB acknowledged concerns that in some jurisdictions providing forward-looking information might be seen as signaling political intent or committing a public sector entity to certain future actions. In addition, whether forward-looking information can be included in financial statement discussion and analysis will vary depending upon the regulatory and budgetary reporting environment in which the entity operates. Some members expressed the opinion that not including forward-looking information could have an impact on the ability of financial discussion and analysis to support decision-making of users and therefore its inclusion should be recommended. However, on balance the IPSASB decided not to recommend that an entity disclose forward-looking information, though such information may be provided if an entity so chooses.

Implementation Guidance and Illustrative Examples

BC13. ED 47 included Implementation Guidance on qualitative characteristics, and illustrative examples of information about the entity's financial statements and variances and trends. The IPSASB decided to delete the implementation guidance and illustrative examples on the basis that entities preparing financial statement discussion and analysis should focus on the guidance in the RPG. Moreover, the IPSASB observed that best-practice examples are available from other sources.

Revision of RPG 2 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC14. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

RPG 3—REPORTING SERVICE PERFORMANCE INFORMATION

History of RPG

RPG 3, *Reporting Service Performance Information* was issued in March 2015.

Since then, RPG 3 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in RPG 3

Paragraph Affected	How Affected	Affected By
3	Deleted	The Applicability of IPSASs April 2016

March 2015

REPORTING SERVICE PERFORMANCE INFORMATION

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting service performance information in General Purpose Financial Reports (GPFRs). Service performance information is information on the services that the entity provides, an entity's service performance objectives and the extent of its achievement of those objectives. Service performance information assists users of GPFRs (hereafter termed "users") to assess the entity's service efficiency and effectiveness.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting service performance information should aim to achieve the principles set out in this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).

3. Although this RPG does not apply directly to commercial public sector entities, the services provided by a commercial public sector entity controlled by the reporting entity are within the scope of this RPG.

4. Service performance information should not be described as complying with this RPG unless it complies with all the principles in this RPG.

5. This RPG outlines information to be presented. An entity may present additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics of financial reporting.

6. In some jurisdictions the presentation of service performance information is a legislative or regulatory requirement. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

7. A jurisdiction may have established service performance reporting requirements that extend beyond the guidelines in this RPG. These could include, for example, greater specification of required information organization, requirements for a larger set of information to display or disclose, and/or specific performance indicators or specific types of performance that are required to be presented. In that case the entity is encouraged to ensure that information identified through application of both this guideline and jurisdictional requirements is presented.

Definitions

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

Effectiveness is the relationship between actual results and service performance objectives.

Efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes.

Inputs are the resources used by an entity to provide outputs.

Outputs are the services provided by an entity to recipients external to the entity.

Outcomes are the impacts on society, which occur as a result of, or are reasonably attributable to, the entity's outputs.

Performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives.

A service performance objective is a description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency.

9. The Implementation Examples that accompany RPG 3 illustrate the terms defined above.

Effectiveness

10. When reporting on its effectiveness the entity reports the extent to which one or more of its service performance objectives has been achieved. The more effectively an entity operates as a service provider, the better will be its actual results when measured against its planned results.

Efficiency

11. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to a reference such as:

(a) Previous reporting periods;

(b) Expectations;

(c) Comparable service providers; or,

(d) Benchmarks.

12. If the same quantity and quality of outputs can be produced at less cost than before then production efficiency has improved and an efficiency indicator designed to report that type of efficiency gain will show an improvement. Similarly, if the quality of a service improves so that the outcomes achieved are better than those previously attained, with other variables such as service quantity (outputs) and cost holding constant, then this represents an increase

in efficiency, and an efficiency indicator designed to capture that type of efficiency gain will show an improvement. The converse—quality decreases so that outcomes are worse, with other variables such as service quantity (outputs) and cost holding constant—would indicate less efficient service provision.

Inputs

13. Resources used to produce outputs may include:

    (a) Human resources or labor;

    (b) Capital assets such as land, buildings and vehicles;

    (c) Cash and other financial assets; and,

    (d) Intangible assets such as intellectual property.

14. Inputs can be reported in terms of costs incurred or quantities used to produce outputs.

Outputs

15. Services provided by an entity to external recipients include:

    (a) Services provided directly to individuals and institutions—for example, health or education services or the provision of goods such as food or books;

    (b) Services provided indirectly to individuals and institutions—for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;

    (c) Transfers to individuals and institutions—for example, cash transfers and the provision of economic incentives such as tax incentives;

    (d) Policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and

    (e) Collection of taxes and other revenues.

16. The receipt of services by recipients external to the entity is a critical factor in deciding whether services are outputs, rather than services consumed internally as part of an entity's production of outputs.

Outcomes

17. An entity's outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's services. They could

also be impacts on others that are not recipients of the entity's services but who benefit indirectly from those services.

18. Outcomes may include, for example, changes to educational achievements within society, changes to poverty and crime levels, or changes to the health of different groups within society.

19. There may be a strong, direct causal link between an entity's actions and its outcomes, but this will not always be the case. Factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes.

Performance Indicators

20. Inputs, outputs, outcomes, efficiency and effectiveness are types of performance indicators.

21. Performance indicators may be quantitative measures—for example, the number of outputs produced, the cost of services, the time taken to provide a service, or a numerical target for an outcome. Performance indicators may be qualitative measures—for example descriptors such as poor/good/excellent or satisfactory/unsatisfactory, which could include service quality ratings by service recipients, citizens or experts. Use of quantitative and qualitative measures may help users with:

    (a) Their assessment of whether service performance objectives have been achieved; and,

    (b) Inter-period and inter-entity comparisons of service performance.

22. A performance indicator could also be in the form of a qualitative description. A qualitative description may be necessary to provide users with relevant and understandable information on service performance where there is a high level of complexity and judgment involved in a particular service.

Service Performance Objectives

23. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. A service performance objective may also be expressed using a narrative description of a desired future state resulting from provision of services.

24. Service performance objectives will generally be specific, measurable, achievable, realistic and time-bound.

25. An entity's service performance objectives may all be expressed in the same type of performance indicator; for example, all expressed in outcomes. They may also be expressed in different types of performance indicators; for

example, some of the service performance objectives may be expressed in outcomes, while others are expressed in outputs and/or inputs.

26. A single service may contribute to achievement of one or more service performance objectives. Several services may contribute to the same service performance objective.

Reporting Boundary

27. For reporting service performance information the reporting boundary of the entity should be the same as that used for the financial statements.

28. The performance indicators presented will be relevant to the controlling entity's own service performance objectives. Unlike consolidated financial statements, which combine the finances of controlled entities, service performance information reported by a controlling entity is not usually a combination of the services reported by its controlled entities.

Annual Reporting and Reporting Period

29. Service performance information should be reported at least annually.

30. Service performance information should cover the same reporting period as that covered by the financial statements. However, a consideration of users' needs and an assessment of costs and benefits may indicate that the reporting period should be different from that covered by the entity's financial statements. This may be the case, for example, when service performance information presented by a controlling entity is based on service performance information reported by controlled entities that have a different reporting period.

31. Service performance objectives may require periods longer than one year to achieve. Users will need information on progress towards such multi-year service performance objectives. Paragraph 53 addresses the type of service performance information that can be presented to show annual progress towards multi-year service performance objectives.

Principles for Presentation of Service Performance Information

32. An entity should present service performance information that is useful to users for accountability and decision making purposes. Presentation should enable users to assess the extent, efficiency and effectiveness of the entity's service performance. It should be appropriate to the entity's service performance objectives and make the relationship between the entity's service performance objectives and its service performance achievements clear.

33. When used in combination with the information in an entity's financial statements, service performance information should enable users to assess

the entity's finances in the context of its achievement of service performance objectives and vice versa.

34. The service performance information presented should take account of the entity's specific circumstances, such as:

(a) The services that the entity provides;

(b) The nature of the entity; and,

(c) The regulatory environment in which the entity operates.

35. The presentation of service performance information should achieve the qualitative characteristics of financial reporting, while applying the pervasive constraints on information in GPFRs. (The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) describes the qualitative characteristics and pervasive constraints.)

36. Aggregation or disaggregation of service performance information should be at a level that conveys a meaningful understanding of the entity's service performance achievements. The level of aggregation should not be so high as to conceal or obscure performance, while the level of disaggregation should not be so low as to result in detailed listings that also obscure performance and reduce understandability. Information reported should be sufficiently specific for users to hold the entity accountable for its service performance, particularly its performance with respect to its service performance objectives.

37. Comparability to other entities can be difficult to achieve in the context of service performance information since diverse services are provided. Even where two entities provide exactly the same service they may have different service performance objectives with the result that they need to report different, non-comparable performance indicators. Inter-entity comparability may need to be traded off against relevance, so that service performance objectives and their related performance indicators are chosen to be relevant to the service performance situation of the entity. Alternatively the needs of users may indicate that performance indicators that are comparable with those of other entities delivering the same services are relevant to the entity, and the two qualitative characteristics—comparability and relevance—are aligned.

Selection of Service Performance Information

Information for Display

38. The following information should be displayed:

(a) Service performance objectives;

(b) Performance indicators; and,

(c) Total costs of the services.

39. With respect to performance indicators and the total costs of the services, the entity should display:

(a) Planned and actual information for the reporting period; and

(b) Actual information for the previous reporting period.

40. Where service performance information includes information that is also in the financial statements, cross-references to the financial statements should be presented so that users can assess the information within the context of the financial information reported in the financial statements.

41. Information found in an entity's legislation and planning documents (budget statement, mission statement, strategic plan, funding agreements, corporate plan, etc.) will usually help to identify the service performance objectives and performance indicators that are relevant to the entity.

Service Performance Objectives

42. Where the entity's service performance objectives change, the information presented should reflect the change. For example, an entity may initially have service performance objectives related to increasing either the inputs or outputs related to its services, and then later re-focus its performance towards improving either the services' efficiency or effectiveness. That change should be reflected in the service performance information that the entity presents.

Performance Indicators

43. Judgment is needed to determine the most suitable set of performance indicators to be reported. The overriding principle is that indicators should be selected on the basis of their importance to users and their usefulness in assessing the entity's achievements in terms of its service performance objectives. For performance indicators to be relevant they should link directly to one or more of the entity's service performance objectives. Alignment between the different indicators presented—for example between input, output and/or outcome performance indicators—and the service performance objectives helps users to assess the relationship between resources and results, and how resource availability may have influenced achievement of service performance objectives.

44. The performance indicators presented should allow users to assess how efficiently and effectively the entity has used its resources to deliver services and achieve its service performance objectives.

45. Where an entity has publicly reported planned performance indicators the actual performance indicators presented will usually be consistent with those previously made public. Those entities that publish their budget information and apply IPSAS 24, *Presentation of Budget Information in Financial*

Statements, should consider the relationship between that information and the service performance information that they report.

46. An entity is encouraged to display information about its intended outcomes and its achievements with respect to those outcomes.

47. There may be a large number of performance indicators that can be presented for an entity's service performance objectives. To ensure that the information is understandable and to avoid overwhelming users, entities generally will need to identify only those few key performance indicators that will best meet the needs of users for information that meets the objectives of financial reporting.

48. Performance indicators that involve quantification should be able to be measured reliably. Where performance indicators can be generated by a transaction processing system the use of such a system will support the verifiability and timeliness of reported information.

49. When selecting performance indicators entities should ensure that the indicators presented will provide a representationally faithful description of the achievement of service performance objectives. There may be trade-offs between different aspects of service performance, such that one aspect improves while another aspect deteriorates. Information presented should be neutral. Entities should avoid any tendency to present performance indicators that are biased towards reporting positive results. This helps to ensure that the qualitative characteristics are met and users can be confident that the performance indicators faithfully represent the entity's service performance.

50. Ease of measurement is likely to be a consideration when selecting performance indicators, but it should be secondary to the needs of users. The performance indicators presented should not over-emphasize easily measured dimensions.

51. In some situations a qualitative description (also called narrative information) should be presented as a performance indicator. This could be the case where service performance achievements cannot be reduced to a small set of quantitative or qualitative measures because the service:

(a) Is complex;

(b) Involves interrelated factors; and

(c) Involves a large number of different possible indicators of success or progress, all of which involve judgment as to their relative importance.

52. Information reported on any particular service may include one or more different types of performance indicators; quantitative measures, qualitative measures and/or qualitative descriptions.

Multi-year Service Performance Objectives and Performance Indicators

53. The extended timeframe of multi-year service performance objectives should not be a deterrent to reporting multi-year objectives and disclosing progress towards their achievement, although ways to report on progress in a cost-effective way may need to be developed. Alternative or proxy measures that indicate progress towards achievement of the service performance objective may be able to be presented in the short-term, until information on achievement of the multi-year service performance objective is available. For example, where an entity establishes both annual outputs and longer term, multi-year outcomes for one or more service area there may be scope to treat annual reporting against outputs as indicative of progress towards achievement of the outcomes, with actual outcomes reported less frequently.

Total Costs of Services and Disaggregated Cost Information

54. In addition to display of the total costs of services, an entity may also choose to present disaggregated cost information. Disaggregated cost information could, for example, be costs related to individual service performance objectives, outcomes, service areas, individual services, the costs of outputs, or costs related to particular inputs. Users' assessment of efficiency may be supported through provision of costs related to either outputs or outcomes.

Planned and Actual Service Performance

55. Planned and actual service performance information should be reported consistently so that users' assessments of effectiveness are facilitated. Wherever possible, entities should report on the same performance indicators, with the same methodology and parameters for their computation, as that established before the start of the reporting period. This enables users to compare actual performance with planned performance at the end of the reporting period.

56. Consistency of performance indicators over several years facilitates long-term trend analysis. But such consistency should not be pursued at the expense of:

   (a) Improving the quality of performance indicators; or,

   (b) Aligning indicators with changed expectations from stakeholders.

57. An entity may need to address the issue of how to report on changes to planned service performance that occurred during the reporting period. This situation may arise, for example, when stakeholders revise their service performance expectations during the reporting period, resulting in an amendment to service performance objectives. Service performance objectives may also change as a result of a public sector combination, where accountability for services is transferred from one entity to another or reporting needs to be on services previously provided by two different entities and now provided by a single,

merged entity. In these situations it may be possible for the entity to report against both the original and the revised service performance objectives. The reason for, and the impact of, these changes could be outlined in narrative discussion and analysis, so that users have the information they need to understand reasons for variances between service performance objectives at the beginning of the reporting period and actual achievements, while also understanding the degree of actual achievement against the more up-to-date, revised service performance objectives.

Information for Disclosure

58. Judgment is needed to decide what information should be disclosed so that users:

(a) Understand the basis of the displayed service performance information; and,

(b) Receive a concise overview of the entity's service performance, which highlights the main issues relevant to their assessment of that service performance.

Basis of Displayed Service Performance Information

59. An entity should disclose sufficient information on the basis of displayed service performance information to enable users to evaluate whether the information on service performance objectives, performance indicators and total costs achieves the qualitative characteristics of financial reporting.

60. An entity should disclose information on the sources of displayed service performance information.

61. The following information should be disclosed:

(a) An explanation of the displayed service performance objectives, which describes how they have been established, the need for them to be achieved, and the relationship(s) between the service performance objectives and:

(i) The displayed performance indicators, and

(ii) The entity's overall objectives.

(b) An explanation of the relationship(s) between related performance indicators. (For example, information on the extent of alignment between input, output and/or outcome indicators, where the inputs and outputs contribute to achievement of a particular outcome.)

(c) An explanation of the basis for information aggregation (or disaggregation), which addresses the level of detail reported.

Disaggregated Information on Costs

62. If an entity chooses to present disaggregated information on costs then the basis for cost determination should be disclosed.

63. Cost determination information includes information such as:

    (a) Cost allocation policies;

    (b) The treatment of direct and indirect service related expenses; and/or

    (c) A reconciliation or a comparison between the costs of services presented and total expenses.

Controlling Entity Disclosures

64. Where a controlling entity reports on services provided by its controlled entities the controlling entity should disclose information that explains the respective roles and responsibilities for service performance within the economic entity.

Disclosures when Reporting Period is Different

65. When the service performance information covers a reporting period different from that for the entity's financial statements, the following information should be disclosed:

    (a) The fact that the reporting period is not the same as that for the financial statements;

    (b) Why there is a difference; and,

    (c) If financial information is included in the service performance report, either

        (i) The reporting period of the financial statements from which the information has been derived, along with information to facilitate access to those financial statements; or

        (ii) The source of the financial information reported, if the information has not been derived from the entity's financial statements, along with information to facilitate access to that source.

66. When the reporting period for information on some services is different from the reporting period of the entity's service performance report the following information should be considered for disclosure:

    (a) The services affected,

    (b) The applicable reporting period(s), and

    (c) An explanation for the difference(s).

Disclosures when Separate from the Financial Statements

67. Paragraphs 72–75 below address the location of service performance information in a GPFR. Where service performance information is presented separately from the GPFR that includes the financial statements, the following information should be presented:

(a) The name of the entity;

(b) Where the entity is a controlling entity, a description of the group of entities controlled by the reporting entity;

(c) Where the entity is a controlled entity, the identity of the controlling entity;

(d) The reporting date and the reporting period covered by the service performance information;

(e) The financial statements to which the service performance information relates and sufficient information necessary for users to locate the financial statements;

(f) The presentation currency, as defined in IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*; and,

(g) The level of rounding used.

68. Where service performance information is presented in the GPFR that includes the financial statements, the applicable IPSAS(s) establishes that this information should be presented.

Narrative Discussion and Analysis

69. The entity should disclose narrative discussion and analysis on its service performance information. Narrative discussion and analysis complements the displayed service performance information by enabling users to gain insight from the entity on:

(a) Aspects of service performance that the entity considers should be highlighted; and

(b) Factors that affected service performance achievements during the reporting period.

70. Narrative discussion and analysis should provide a concise overview of the entity's service performance that:

(a) Discusses the degree to which service performance objectives have been met;

(b) Provides balanced explanations of the information displayed, which cover both positive and negative aspects of the entity's service performance; and

(c) Facilitates users' assessments of the efficiency and effectiveness of the entity's service performance.

71. The Implementation Examples that accompany RPG 3 illustrate types of information that could be included in narrative discussion and analysis.

Location of Service Performance Information

72. An entity may present service performance information either:

(a) As part of a GPFR that includes the financial statements; or,

(b) In a separately issued GPFR.

73. The following factors should be considered when making this decision:

(a) The extent to which the service performance information needs to be reviewed within the context of information in the financial statements, including information on budget-actual comparisons;

(b) Whether the needs of users and the qualitative characteristics are enhanced if the service performance information is included in the same GPFR as the financial statements or in a separate GPFR;

(c) Application of the pervasive constraints on information, including whether the benefits of including the information in the same GPFR as the financial statements justify the additional costs (if any) involved; and,

(d) Jurisdiction-specific requirements which could specify either that service performance information should be located in the same GPFR as the financial statements or in a separate GPFR.

74. With respect to point (a) in paragraph 73 above, an important factor in this decision is likely to be whether the primary objective of providing the service performance information is:

(a) To inform assessments on resource allocation decisions for the provision of services, in which case there is likely to be value in associating the reporting of service performance information with the financial statements that are compared to budget allocations; or

(b) To inform assessments on policy or strategy decisions, in which case there is likely to be value in associating the reporting of service performance information with information on policies or strategy.

75. Where an entity chooses to present its service performance information in a separate GPFR from the financial statements the separate GPFR should

be issued on a timely basis, which will usually be demonstrated through issuance at the same time as the financial statements or, if not at the same time, then very close to issuance of the financial statements.

Organization of Service Performance Information

76. The organization of service performance information within a GPFR should enable users to:

    (a) Understand an entity's service performance, including its achievement of service performance objectives;

    (b) Assess the entity's service efficiency and effectiveness; and

    (c) Use the service performance information for the purposes of accountability and decision making.

77. The service performance information should be organized so that connections are clear between displayed information and:

    (a) Disclosures on the basis of the displayed information, and

    (b) Narrative discussion and analysis.

78. One way to organize service performance information is in a "statement of service performance", which involves organizing information into a tabular or statement form. A statement of service performance can support understandability and comparability when the performance indicators presented are quantitative measures or qualitative measures reported on multiple services.

79. Where service performance information is presented through narrative or case studies a tabular approach is unlikely to be appropriate. In some cases a mixture of case studies and one or more tables or statements will be appropriate.

80. Entities may use several levels of reporting in order to achieve a balance between being:

    (a) Concise enough to be understandable; and,

    (b) Providing sufficient detail with respect to multiple aspects related to each service performance objective.

81. The use of several levels of reporting allows the display of concise reporting at higher levels, and display or disclosure of more detailed coverage at lower levels, where service areas, for example, could be disaggregated into two or more individual services.

82. IPSAS 18, *Segment Reporting,* applies to entities' identification of segments. It describes service segments and identifies factors that should be considered when grouping services into segments for financial reporting purposes.

Basis for Conclusions

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

Background

Project Initiation, Consultation Paper and Decision to Develop Guidance

BC1. The IPSASB's project on reporting service performance information began with a review of national standards, guidance, and regulatory requirements for service performance reporting (or its equivalent) from selected national jurisdictions, the United Nations, and the Organization for Economic Co-operation and Development. No two jurisdictions have identical service performance reporting frameworks, but there are similarities in the service performance information that is reported. Consideration of these similarities and of commonly used terms provided the basis for the Consultation Paper (CP), Reporting Service Performance Information, issued in 2011. The CP proposed a principles based framework for reporting service performance information and a standard terminology.

Development of a Recommended Practice Guideline

BC2. In 2013 the IPSASB decided that information additional to that included in the financial statements should presently be addressed through development of a Recommended Practice Guideline (RPG). Therefore a draft RPG, ED 54, Reporting Service Performance Information, was developed for reporting service performance information. This RPG is based on the service performance reporting framework developed for the CP, revised for the IPSASB's decisions during its review of responses to the CP and its subsequent review of responses to ED 54. This RPG is underpinned by the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

Overall Approach of RPG—Guidance on Decisions and Minimum Characteristics

BC3. During development of this RPG, the IPSASB considered whether its overall approach should aim to:

(a) Establish minimum characteristics of service performance information, consistent with an RPG's role as providing guidelines on good practice and requirements; or

(b) Provide a framework that identifies decisions that preparers need to make and guidance on those decisions, consistent with the framework approach in the CP and an RPG's function as guidance.

BC4. Given the diversity of services and reporting contexts, the IPSASB decided that the RPG should not attempt to standardize service performance reporting, but focus on achievement of principles. At the same time, the core type of service performance information that should be presented. This approach was decided on the basis that guidelines are needed on what type of information should be presented and it is possible to identify broad categories of information—for example, information on service performance objectives—that are applicable to all entities that report service performance information.

BC5. In developing an RPG for reporting service performance information the IPSASB acknowledged the challenge in developing guidance that would be useful when applied to diverse services, diverse service performance objectives, and diverse accountability and decision-making contexts world-wide. Arguably service performance reporting quality depends in part on the extent to which it meets the particular information needs arising from the services provided and the context for their provision. For example, a report that tells the story of factors influencing progress toward critical targets may look quite different to a report that provides an account of services delivered for the resources provided. The IPSASB considered these matters and was of the view that it would be most helpful to develop an RPG that identifies the decisions that preparers will need to make, then provides guidance on how such decisions should be made, rather than an RPG that establishes minimum standards.

BC6. The IPSASB's view is that principles applicable to reporting service performance information provide useful guidance, without attempting to establish global requirements that may not be appropriate for the variety of different services and different service delivery contexts that exist globally. Service performance information is a developing area, which means that the RPG should not be overly prescriptive.

BC7. Some respondents to the ED were concerned about an apparent contradiction between RPGs as pronouncements that do not establish requirements and paragraph 5 of the ED, which stated that compliance with the RPG involves compliance with all of its requirements. The IPSASB decided that the phrase "compliance with requirements" in this paragraph should be replaced with "compliance with principles". The basis for this is twofold. First, the RPG establishes principles which entities then use to guide their decisions on what service performance information they report. Second, while the paragraph still uses the idea of "compliance", the IPSASB considers that this is consistent with the RPG's role as a recommended guideline. The nature of an RPG as a guideline is established by the allowance for entities to not follow a particular RPG—in its entirety—without impacting negatively on the entity's IPSAS compliance. Preparers (or jurisdictions) may also choose to apply part of the RPG and, for example, progressively move towards full compliance, at which point compliance can be asserted. Nonetheless the specific content of an RPG involves a set of principles that establish good practice. An RPG may also, depending on the topic addressed, involve more flexibility of application than is the case for an IPSAS. This is the case for this RPG which includes options as to presentation and uses principles to guide preparers' decisions on what information to present.

Scope

BC8. When this RPG was issued, the IPSASB considered whether the RPG should apply to [Government Business Enterprises (GBEs)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016). While acknowledging that GBEs provide services and may report service performance information on those services the IPSASB decided that this RPG should apply to all public sector entities other than GBEs. When this RPG was issued, this was consistent with the Preface to International Public Sector Accounting Standards, which stated that the IPSASB developed accounting standards and other publications for use by public sector entities, other than GBEs. This exclusion from the scope should not be read as implying that the guidance could not be applied by GBEs or that there is any barrier to GBEs applying this guidance.

BC9. In reaching this conclusion the IPSASB noted that where a controlling entity reports service performance information according to the recommendations in this RPG it may provide information on services provided by one or more controlled GBEs. Although the GBEs' own reporting was not within the scope of this RPG, the IPSASB decided that the information reported by the controlling entity—about the GBEs' services—needed to follow the RPG's requirements, if the controlling entity was to assert compliance with the RPG.

BC10. The IPSASB considered whether this RPG should apply to entities in national jurisdictions which already have extensive service performance information reporting requirements for their public sector entities—requirements that may extend beyond the principles approach to information which is set out in the RPG. The IPSASB's view is that, in such circumstances, the entity will need to ensure that jurisdictional requirements are met. While the RPG does not set out detailed comprehensive and specific requirements, this does not represent an encouragement to report less than is already reported under national or other requirements, nor is this viewed as in conflict with more extensive reporting. Paragraphs 6–7 of the RPG addresses the relationship between the RPG and jurisdictional requirements for service performance information, explaining that the RPG does not preclude the presentation of additional information and more extensive jurisdictional requirements would apply in addition to the guidelines in the RPG. The IPSASB concluded that the RPG adequately addresses this issue and the RPG should be able to be applied to entities in jurisdictions where extensive service performance information reporting requirements already exist.

Definitions of Terms

BC11. In reaching its view on the need for standardized service performance terminology the IPSASB noted that although entities use some terminology consistently, many of those entities have not defined some or all of the terms they use. Moreover, the same terms sometimes have different meanings in different jurisdictions. On this basis, the IPSASB concluded that a standardized service performance terminology was necessary to support the understandability and comparability of service performance information reported by entities in GPFRs.

BC12. The IPSASB developed the defined terms in the RPG, by basing them, as far as possible, on terms already used in jurisdictions with a well thought through and explicit approach to, and extensive experience in, service performance reporting.

BC13. During the review of responses on the CP and the ED, and then during subsequent development of the RPG the IPSASB revised the definition of an effectiveness indicator. The CP definition was: “Effectiveness indicators are measures of the relationship between outputs and outcomes.” This implies that the relationship between outputs and outcomes is relatively simple to measure. After further consideration the IPSASB considered that the relationship between outputs and outcomes is likely, in many situations, to be more complex than the simple relationship underpinning the original definition. Furthermore, the IPSASB considered that effectiveness is better understood to be the degree to which an entity is successful in achieving its service performance objectives. On this basis the IPSASB decided that effectiveness indicators show the extent to which an entity has achieved its services performance objectives

BC14. During development of the CP and ED 54, and the subsequent review of responses to ED 54, the IPSASB considered whether to include “economy indicators” in the RPG’s set of defined terms. IPSASB members decided to exclude economy indicators because the term is both confusing and unnecessary given other terms defined in the RPG. “Economy indicators” do not represent something additional to the ideas conveyed by either inputs or efficiency, for which the RPG establishes clear definitions. The IPSASB noted that the RPG’s approach to selection of service performance information allows jurisdictions to assess “economy”, whatever the meaning that a particular national jurisdiction gives that word. For example, the RPG supports the presentation of information on costs, on other inputs, and on efficiency.

BC15. Economy is a commonly used term in the context of service performance reporting. However different jurisdictions have different meanings for economy. For some jurisdictions economy means lower costs for service delivery without reference to impact on quantity and/or quality of services delivered. Other jurisdictions consider that this first view is not really economy and that using “economy” to describe situations where costs are reduced but service quantity and/or quality is negatively impacted could be misleading to users of GPFRs. A second view of economy is that it is only achieved if service delivery is maintained or enhanced, when costs or other inputs are reduced. This second view of economy fits the definition of "efficiency" in the RPG. Indeed, there is a third group of national jurisdictions that does not use the term "economy" on the basis that the term can be confusing and it overlaps with efficiency. Therefore the RPG does not define "economy indicators" and does not use the term "economy".

Reporting Entity

BC16. Service performance information should support the users of the GPFRs as they hold the entity accountable for its service provision and use of resources and make decisions affecting that entity. On that basis a majority of the IPSASB considered that service performance information should be prepared for the same reporting entity as for the financial statements. To be consistent with coverage in RPGs 1 and 2 (see paragraph 14 of RPG 1 and paragraph 4 of RPG 2) the wording in RPG 3 focuses on "reporting boundary" rather than reporting entity, In reaching this conclusion the IPSASB also noted that the RPG's accountability and decision making focus is not designed to apply to supply chains, networks or other combinations of individual entities that may be able to influence each other but do not have the ability to control.

BC17. Several respondents to the ED suggested that the RPG should also provide guidance for reporting on programs or policies that involve a group of entities that are not under common control, that is, "cross-boundary" reporting. The IPSASB acknowledged that there is a trade-off between service performance reporting that applies the same reporting entity boundary as for the financial statements and flexible boundaries that provide scope for cross-boundary reporting. A focus on the same reporting entity as for the financial statements has the benefit of following lines of control and supporting organization-focused accountability, while also facilitating both collection of service performance information and the integration of such information with financial information in the entity's financial statements. However there are cases where no single entity is accountable for a program or policy and requiring cross-boundary reporting, aligned with the program or policy, would provide information that better explains service performance related to that program or policy. The IPSASB considered expanding the RPG's scope to also include guidance for cross-boundary reporting on "programs" or "sets of activities that contribute to the same outcome(s)". The IPSASB decided that the RPG should remain focused on reporting by the same entity as that for the financial statements. This does not prevent national jurisdictions from adapting the RPG's principles and guidance for application to cross-boundary reporting.

BC18. The IPSASB considered concerns expressed by respondents to the CP and the ED over controlling entities being required to report all services provided by their controlled entities. That could have the result that information becomes too detailed and lengthy to meet the qualitative characteristics and support users' assessments for accountability and decision making. The IPSASB decided to include further explanation in the RPG to address this concern. On this basis the RPG states that controlling entities should report against their own service performance objectives rather than attempt to aggregate all those services provided by controlled entities.

Annual Reporting and Reporting Period

BC19. The IPSASB considered whether service performance information should be reported annually, when service performance objectives, whether expressed in outcomes, outputs or inputs, may require periods longer than one year to achieve. The majority of IPSASB members considered that service performance information should be reported annually because this is important to ensure that users' have the information they need for the purposes of accountability and decision-making. To address the existence of multi-year service performance objectives the IPSASB decided that the RPG could encourage entities to disclose information on their progress towards multi-year service performance objectives. The IPSASB noted that responses to the ED indicated generally strong support for annual reporting. The IPSASB confirmed that service performance information should be presented annually and use the same reporting period as that for the financial statements, unless users' needs require a different period.

Scope to Report More Frequently

BC20. Some respondents to the ED were concerned that it did not allow entities to report more frequently than annually. The IPSASB agreed with respondents who argued in favor of scope for more frequent reporting, noting that this is likely to increase transparency and accountability. As one respondent stated, more frequent reporting also can encourage "management dialogue between all those involved in the evaluated public policy mission and improves the management process by increasing the accountability of the public manager." The IPSASB decided to use the phrase "should be reported at least annually", which allows for more frequent reporting and is the same phrase as that used in IPSAS 1, Presentation of Financial Statements, to address reporting frequency.

Reporting Against Multi-Year Performance Objectives

BC21. The IPSASB considered concerns raised by some respondent to the ED that annual reporting could have negative consequences for outcome reporting, including the possibility that annual reporting could have the unintended effect of reducing the extent to which entities report outcomes. The IPSASB noted that for some outcomes annual measurement is very expensive and measurable change showing progress towards outcome achievement will not emerge for two or more years. One respondent noted that annual reporting in such cases may even be misleading. This problem is not restricted to service performance objectives focused on outcomes, but can also occur for outputs and input reporting. To address this concern the RPG includes explicit coverage on use of proxy measures and provides scope for entities to report outputs or inputs as indicative of progress towards achievement of outcomes or other types of multi-year service performance objectives.

Service Performance Information Issued at Same Time as the Financial Statements

BC22. The IPSASB considered whether the RPG should state that service performance information should be issued at the same time as the financial statements. The IPSASB noted that issuance at the same time as the financial statement supports timeliness, but may be very difficult for some entities to achieve. The IPSASB decided that, while acknowledging that it is desirable for service performance to be reported at the same time as the financial statements, the RPG should not state that this is necessary.

Controlling Entity and Controlled Entities with a Different Reporting Period

BC23. The IPSASB considered situations in which a controlling entity includes information on services that are provided by controlled entities with a different reporting period from that of the controlling entity. Ideally all the service performance information reported should cover the same reporting period. However there are situations where the benefits of aligning the information with the controlling entity's reporting period do not outweigh the costs involved. For example, some public sector entities provide service performance reports to donors who require a different reporting period from that for the entities' financial statements. The additional costs of preparing service performance reports for each reporting period (donors and financial statements) may not justify the benefits. On this basis the IPSASB decided that the RPG should acknowledge the possibility that some of the service performance information reported may be for a different reporting period and address this through additional disclosures.

Two Approaches for Reporting Service Performance Information

BC24. In developing this RPG the IPSASB acknowledged that there are differing approaches to reporting service performance information, including approaches that are more output-focused and approaches that are more outcome-focused. A more outputs-focused approach reports information about the services provided. This type of information is oriented towards resource providers and aims primarily to report on the services received for resources provided and whether resources have been used efficiently, although there is scope to widen the focus to include information about outcomes. A more outcome-focused approach tells a performance story, which generally reports on the achievement of outcomes, although there is scope to relate this performance story back to the costs of services. The information reported explains how well the entity is doing in terms of achieving its objectives, where those objectives are described in terms of outcomes.

BC25. The IPSASB considered whether the RPG should include guidance specifically tailored for each approach, but decided against this on the basis that the RPG's focus on achievement of objectives can be applied to either approach. Allowing entities to tailor their reporting to their objectives means that entities or jurisdictions do not need to fit their individual approach into either an output-focused approach or an outcome-focused approach in order to apply the RPG. This means that the RPG's content will be useful to a variety of entities applying different approaches. Entities' service performance objectives may even relate to inputs, when their reporting of service performance information is at an early stage. However, the ideal to which entities should, over time, aspire is the reporting of service performance information that reports comprehensively on both outcomes and outputs, along with information that allows users to assess the efficiency and effectiveness of both. This is consistent with the IPSASB's view, discussed below, that the performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Principles for Presentation of Service Performance Information

BC26. The RPG sets out principles applicable to the presentation of service performance information, which includes principles applicable to decisions on information selection, location and organization. The RPG identifies factors that should be considered when making presentation decisions and generally proposes information that should be considered for presentation, in light of those principles, rather than prescribing an extensive list of information requirements. This principles-based approach is consistent with the IPSASB's decisions on the RPG's overall approach, developed during the consultation phase and further considered during both development of the ED and the IPSASB's review of responses to the ED. Although the RPG identifies the type of information that all entities should present, it does not prescribe an extensive set of information. The IPSASB has maintained the principles based approach proposed in the CP and then exposed in the ED on the basis that the principles-based approach:

(a) Allows entities the flexibility they need to report service performance information that is relevant an appropriate to their service performance objectives and will meet the needs of users of the information;

(b) Reduces the risk of "disclosure overload", which undermines the extent to which a report on service performance meets the needs of users and does not achieve either the qualitative characteristics or provide benefits in excess of the costs; and

(c) Requires entities to apply principles that will result in the presentation of the service performance information that users need for the purpose of accountability and decision-making.

BC27. The IPSASB determined that the key principles for reporting service performance information should be based on the users' needs that such information should meet, as established through consultation and with reference to the experience of different jurisdictions. The principles are consistent with the Conceptual Framework and have involved application of the Conceptual Framework to the reporting of service performance information.

Presentation of Service Performance Information

Consultation Paper's Dimensions and Components of Service Performance Information

BC28. The CP explained that there are four dimensions of service performance on which information should be presented. The four dimensions—why, what, how and when—relate to an entity's:

(a) Service performance objectives;

(b) Performance indicators;

(c) Comparison between planned and actual performance; and

(d) Time series that allow users to assess either changes in service provision over time or progress towards a multi-year goal.

BC29. The RPG's coverage of information selection addresses these four dimensions when it establishes that an entity should report:

(a) Information on an entity's service performance objectives, including the need or demand for these objectives to be achieved (the "why" dimension);

(b) Performance indicators to show achievements with respect to service performance objectives (the "what" dimension);

(c) Comparisons of actual performance to planned (or targeted) results, including information on the factors that influence results (the "how" dimension); and

(d) Annually on service performance information presenting actual information for the current and the previous reporting period (the "when" dimension).

BC30. The CP also established components of service performance information, which relate to these four dimensions. The RPG's coverage of information selection addresses the CP's components, which are:

(a) Narrative discussion of the achievement of objectives;

(b) Information on the "parameters" of the service performance information reported (termed "basis" in the RPG); and

(c) Information on the entity's service performance objectives, and its achievement of those service performance objectives.

Principles Rather than Specific Requirements

BC31. The IPSASB acknowledged that entities' presentation of service performance information will vary, depending on:

(a) The services that the entity provides;

(b) The nature of the entity; and

(c) The regulatory environment or other context within which the entity operates.

BC32. Because services provided, service performance objectives, and applicable service performance indicators depend on these different factors, the IPSASB decided that the RPG should not identify specific performance indicators that must be presented. Instead, it should identify broad types of information that should be reported and provide guidance on achievement of the qualitative characteristics when selecting service performance information.

BC33. The RPG identifies different types of performance indicators that could be presented, but does not require that particular performance indicators be presented. While efficiency and effectiveness indicators directly address those aspects of performance, the RPG's objective of providing information for users to assess efficiency and effectiveness does not mean that those two types of performance indicators must be presented. For example, efficiency can be calculated using information about outputs and their cost. Effectiveness can be assessed using information on service performance objectives and results achieved against those service performance objectives.

Information that Conveys a Coherent, Integrated View of the Entity's Service Performance

BC34. The IPSASB considered that the principles focused approach was appropriate because it allows entities at an early stage of developing service performance reporting to meet the RPG's guidelines and report service performance information consistent with their existing reporting capabilities. Nonetheless, the IPSASB's view is that good quality service performance information needs to be reported so that users can assess an entity's service performance, including both its achievement of objectives and the extent to which it has used resources efficiently and effectively to deliver outputs and achieve outcomes. Ideally the set of performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Selection of Performance Indicators

BC35. The IPSASB considered whether the RPG should require entities to report all five types of performance indicators—inputs, outputs, outcomes, efficiency and effectiveness—for the services that they provide. This would result in comprehensive coverage of an entity's service performance, but it might not reflect an entity's actual service performance focus. In practice it is likely that an entity's service performance objectives will change over time. For example, service performance objectives may initially focus on inputs, then outputs and efficiency, and then outcomes. If an entity is able to adjust its reporting of performance indicators to align them with its service performance objectives, then the information presented is more likely to be useful to users and meet the qualitative characteristics, while supporting achievement of the financial reporting objectives. On that basis the IPSASB decided that the RPG should not require reporting of all five types of indicators but should instead provide guidance on how an entity should choose the types of performance indicators that it reports.

BC36. The IPSASB also considered whether the RPG should require entities to report outcome indicators. Outcome information is important to users, because it focuses on the ultimate reason for service provision, which is the impact that services have on the community. However outcome information can be very difficult for entities to provide, particularly when they are at an early stage in developing their services performance reporting or in situations where the reporting entity is one of many entities contributing to the same outcome(s). On that basis the IPSASB decided that the RPG should encourage but not require entities to present information on outcomes.

Total Costs of Services

BC37. The IPSASB considered providing guidelines on what costs should be included in the total costs of services. Costing of services involves management accounting considerations. The meaning of total costs of services may be jurisdiction specific and/or entity specific. Entities may report total costs of services that are equivalent to the total expense they present in their financial statements. Alternatively entities may exclude some costs, for example overhead, or some expense types, for example borrowing costs, with the result that the total costs of services differs from the total expenses presented in the financial statements. On this basis the IPSASB decided not to stipulate what is meant by the total costs of services.

Location of Service Performance Information

BC38. The IPSASB considered whether service performance information should be located in the same report as the financial statements or in a separate GPFR.

It noted that while many national jurisdictions treat service performance information as different in nature and therefore preferably kept separate from information provided with the financial statements, there are also jurisdictions that integrate service performance information into the same report as the financial statements, treating the two sets of information as complimentary. There are benefits to both approaches. In order to allow for jurisdictional differences the IPSASB decided that the RPG should allow entities to report service performance information either in the same report as the financial statements or in a separate report.

Organization of Service Performance Information

BC39. The IPSASB considered whether the RPG should:

(a) Propose one way that service performance information should be organized, with the main method considered being a tabular form, described as a "statement of service performance"; or

(b) Provide principles that should be applied to guide jurisdictions and/or preparers when they choose between different possible information organization approaches.

BC40. The IPSASB noted that in some jurisdictions there are requirements that service performance information be reported in a "statement of service performance". In other jurisdictions preparers apply principles to identify how best to organize information, with reference to the particular types of services, desired outcomes, or planned achievements on which information needs to be reported. Organizing information into a tabular or statement form can support understandability and comparability when numerical or "summary descriptive" performance indicators (e.g. "satisfactory or unsatisfactory") are reported on multiple services. But service achievements could be misrepresented or poorly described if a statement format is the only form of presentation permitted.

BC41. The IPSASB decided that the RPG should focus on principles applicable to this decision. By focusing on principles rather than stipulating a standard reporting structure, the RPG allows the choice of information organization to be tailored to:

(a) The nature of the services on which performance information is presented;

(b) The needs of users, so that it supports achievement of the objectives and qualitative characteristics of financial reporting; and

(c) The regulatory context, including the regulatory environment in which the entity operates.

BC42. Although this could result in less standardization, and reduced comparability between entities, service performance information differs from financial statements information due to the diversity of services reported. Unless the performance indicators themselves are comparable, a single presentation format will not provide the benefits of inter-entity comparability, but will sacrifice the benefits to be gained from allowing the organization of information to be tailored to an entity's service performance objectives and services provided so that it meets the needs of users.

Revision of RPG 3 as a result of the IPSASB's *The Applicability of IPSASs,* issued in April 2016

BC43. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Illustrative Examples

These examples accompany, but are not part of, RPG 3.

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual situations, all facts and circumstances of a particular situation would need to be evaluated when applying RPG 3. Where a cost is identified the amount is express in "currency units" (CU).

IE2. The first part of this appendix lists examples of terms defined in the RPG. It is not intended to be an exhaustive list of examples for all defined terms. The examples illustrate the meaning of different terms usually through reference to an entity that provides health services. The examples focus on one service— the provision of vaccinations to infants in order to prevent measles. The entity uses a range of inputs to produce its outputs (measles vaccinations). Those outputs are then expected to cause (directly or indirectly) the desired outcome(s).

IE3. The second part of this appendix provides an illustrative list of information that could be included in an entity's service performance narrative analysis and discussion.

Part 1: Examples of Defined Terms

- **Service Performance Objectives (SPO):**

  RPG 3 states that service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. The following are examples of service performance objectives that have these different forms of expression. The first example is of a service performance objective that has a focus on inputs, the second has a focus on outputs, the third has a focus on outcomes, and then the last example has a focus on efficiency.

  - To apply 1,200 full-time equivalent days of medical staff time to vaccination services.
  - To provide 20,000 vaccinations to infants.
  - To reduce the percentage of infants who contract measles annually from 65% to 2% within five years i.e. by the end 20XX.
  - To reduce the total cost per vaccination from CU5 to CU4.

- **Input:** The number of full-time equivalent staff days used to provide vaccinations against measles.
- **Outputs:** The number of infants vaccinated against measles.
- **Outcome:** A reduction in the number of infants that contract measles. (The reduction could be expressed in absolute terms (5,000 fewer incidents of

measles) or as a percentage reduction (a 35% percentage reduction in infants contracting measles).

RPG 3 states that outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's services. They could also be impacts on others that are not recipients of the entity's services but who benefit indirectly from those services. RPG 3 also states that factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes. The first example below illustrates an outcome that affects a particular group within society. The second and third examples illustrate a direct impact on service recipients and an indirect impact on non-recipients. The fourth example illustrates a situation where factors beyond the entity's control intervenes to facilitate the entity's achievement of an outcome.

- ○ A 35% reduction in the incidence of measles for infants within the lowest socio-economic decile.
- ○ A reduction in the number of incidents of measles experienced by recipients of measles vaccinations provided by the entity is an example of a direct impact on the recipients of the entity's services.
- ○ Children going to the same schools as those that vaccinated children attend but who have not received a vaccination will also be impacted indirectly by the entity's vaccination services, because their risk of contracting measles is reduced.
- ○ An outbreak of measles in a nearby region leads to extensive media coverage of measles related health risks and an increased vaccination rate in that nearby region covered by another health services provider. These factors facilitate achievement of the entity's outcome to reduce the incidence of measles in its own region. The factors evident in the other region (measles outbreak, media coverage and increased vaccination rate) are outside of the control of the entity.

- **Efficiency:**

  RPG 3 states that efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes. The two examples in the first bullet point below illustrate efficiency expressed as the relationship between inputs and outputs. The example in the second bullet point illustrates efficiency expressed in terms of inputs and outcomes.

  - ○ "Cost per infant vaccinated" is an example of an efficiency indicator that relates outputs (vaccinations) to an input (cost). Efficiency may also be expressed in terms of other inputs such as, for example, number of staff or staff time. For example, 1,000 vaccinations annually per qualified medical staff member.

- "Cost per reduction in number of infants contracting measles" is an example of an efficiency indicator that relates an outcome (reduction in number of infants contracting measles) to an input (cost).

- **Effectiveness:**

  RPG 3 states that effectiveness is the relationship between actual results and service performance objectives. Therefore an assessment of effectiveness depends on the type of service performance objectives that the entity has presented. The three examples below illustrate effectiveness for different service performance objectives. The first example illustrates effectiveness where the service performance objective was expressed in terms of inputs, the second in terms of outputs, and the third in terms of an outcome.

  - The service performance objective was to dedicate 20,000 hours of medical staff time to provision of measles vaccinations during the year ended 31 March 20XX. The actual result achieved was 18,000 hours of medical staff time. Therefore the entity effectiveness in this area was 90%.
  - The service performance objective was to provide 100,000 measles vaccinations to infants during the year ended 31 March 20XX. The actual result achieved was 99,000 vaccinations. Therefore the entity's effectiveness in this area was 99%.
  - The service performance objective was to reduce the number of infants that contract measles by 3,000 compared to the previous year. The actual result achieved was a 3,000 reduction in infants contracting measles. Therefore the entity's effectiveness in this area was 100%.

- **Performance indicator—Qualitative Description:**

  RPG 3 states that performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives. The example below illustrates a performance indicator expressed as a qualitative description:

  A government department (the Ministry) responsible for supporting the government's relationships with other nations, including trade relationships, uses the following qualitative description as one of its performance indicators:

  Engagement with Latin America during this year is expected to include several successful ministerial-led business missions to national governments and ministerial engagement in two regional forums. The Ministry will provide host and other support for ministerial level visits from several countries in the region, and undertake bilateral foreign policy consultations. Consultations will include advocacy of free trade agreements. The diplomatic network in several Latin America countries will be expanded through additional consulates and honorary consuls.

Part 2: Narrative Discussion and Analysis—Types of Information

The following list provides examples of the different types of information that could be included in narrative discussion and analysis to help users' assessment of an entity's service performance:

(a) Particular service performance achievements, deficiencies and issues.

(b) Identification and discussion of the factors that may have influenced achievement (or non-achievement) of service performance objectives.

(c) Effectiveness indicators.

(d) Discussions of differences between planned and actual achievements.

(e) Comparisons of indicators:

  (i) Over time;

  (ii) To milestones; and/or,

  (iii) Between actual and planned results.

(f) Reasons for change(s), if the service performance objectives or performance indicators presented have changed compared to those presented for the previous year.

(g) Where an entity has multi-year service performance objectives, narrative about progress towards their achievement.

(h) Where outcomes are reported, information on the extent to which outcomes can be attributed to the entity's activities.

(j) Significant lessons learned during the reporting period with respect to the entity's service performance including, where relevant, plans on ways to address issues affecting service performance and areas that require further evaluation.

(k) Identification and discussion of the risks associated with the delivery of services and, if risk assessments for services have been carried out, information on how such risk trade-off decisions are informed and managed.

(l) Identification and discussion of the consequences—intended and unintended, direct and indirect—of the services provided.

If an entity provides a discussion of differences between planned and actual achievements this discussion could include, for example:

(a) Identification of the size of the variances; and

(b) Factors contributing to the variances. (For example, external factors, efficiencies or inefficiencies in internal processes, resource availability, or government service delivery decisions.)

The achievement of outcomes is often influenced by factors outside of the entity's control. If an entity provides narrative discussion and analysis on outcomes the disclosures should be sufficient to ensure that users do not overestimate the entity's role with respect to either improving or worsening outcomes. Where outcome information is displayed, information on the following may be useful for users:

(a) The extent to which the outcomes can be attributed to the entity's activities, and

(b) Other factors that may have influenced the outcomes.

The delivery of public services often follows a risk assessment, involving clear parameters around tolerance of different types of risks, including the risk of false positives and false negatives with respect to intervention decisions. Information on how an entity assesses risks as part of service delivery can support users' understanding of an entity's service performance.

GLOSSARY OF DEFINED TERMS

This Glossary contains all terms defined in the 40 accrual basis International Public Sector Accounting Standards (IPSASs) approved up to January 31, 2017. A list of these IPSASs is located on the inside back cover of the Glossary. This Glossary does not include terms defined in the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. Users should refer to that Cash Basis IPSAS for these terms.

Definitions

References to accrual basis IPSASs are by Standard number and paragraph number. For example, 1.7 refers users to IPSAS 1, *Presentation of Financial Statements*, paragraph 7. References set out in brackets indicate a minor variation in wording.

Term	Definition	Location
accounting basis	The accrual or cash basis of accounting as defined in the accrual basis IPSASs and the Cash Basis IPSAS.	24.7
accounting policies	The specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.	3.7
accrual basis	A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/ equity, revenue, and expenses.	1.7
acquired operation	The operation that the acquirer gains control of in an acquisition.	40.5
acquirer	The entity that gains control of one or more operations in an acquisition.	40.5
acquisition	A public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.	40.5
acquisition date	The date on which the acquirer gains control of the acquired operation.	40.5
active market	A market in which all the following	21.14

Term	Definition	Location
	Conditions exist: (a) The items traded within the market are homogeneous; (b) Willing buyers and sellers can normally be found at any time; and (c) Prices are available to the public.	
actuarial gains and losses Applicable up to periods beginning on or before December 31, 2017.	Comprise: (a) Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) The effects of changes in actuarial assumptions.	25.10
actuarial gains and losses Applicable for periods beginning on or after January 1, 2018.	Changes in the present value of the defined benefit obligation resulting from: (a) Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) The effects of changes in actuarial assumptions.	39.8
agricultural activity	The management by an entity of the biological transformation and harvest of biological assets for: • Sale; • Distribution at no charge or for a nominal charge; or • Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.	27.9
agricultural produce	The harvested produce of the entity's biological assets.	27.9
amalgamation	Gives rise to a resulting entity and is either: (a) A public sector combination in which no party to the combination gains control of one or more operations; or (b) A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the	40.5

Term	Definition	Location
	combination has the economic substance of an amalgamation.	
amalgamation date	The date on which the resulting entity obtains control of the combining operations.	40.5
amortization	The systematic allocation of the depreciable amount of an intangible asset over its useful life.	31.16
amortized cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.	29.10
annual budget	An approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7
appropriation	An authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority	24.7
approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.	24.7
assets	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.	1.7
asset ceiling	The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.	39.8

Term	Definition	Location
assets held by a long-term employee benefit fund Applicable up to periods beginning on or before December 31, 2017.	Assets (other than non-transferable financial instruments issued by the reporting entity) that: (a) Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and (b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either: (i) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or (ii) The assets are returned to the reporting entity to reimburse it for employee benefits already paid.	25.10
assets held by a long-term employee benefit fund Applicable for periods beginning on or after January 1, 2018.	Assets (other than non-transferable financial instruments issued by the reporting entity) that: (a) Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and (b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either: (i) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or (ii) The assets are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8

Term	Definition	Location
available-for-sale financial assets	Those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through surplus or deficit.	29.10
bearer plant	A living plant that: (a) Is used in the production or supply of agricultural produce: (b) Is expected to bear produce for more than one period: and (c) Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.	17.13, 27.9
benefits	The advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.	35.14
binding arrangement (for a service concession arrangement)	Describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.	32.8
binding arrangement (for a joint arrangement)	An arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.	35.14
biological asset	A living animal or plant.	27.9
biological transformation	Comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.	27.9
borrowing costs	Interest and other expenses incurred by an entity in connection with the borrowing of funds.	5.5
budgetary basis	The accrual, cash, or other basis of accounting adopted in the budget that has been approved by the legislative body.	24.7
carrying amount (of an intangible asset)	The amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses.	31.16

Term	Definition	Location
carrying amount (of investment property)	The amount at which an asset is recognized in the statement of financial position.	16.7
carrying amount (of property, plant, and equipment)	The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.	17.13
carrying amount of a liability	The amount at which a liability is recognized in the statement of financial position.	10.7
carrying amount of an asset	The amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.	10.7
cash	Comprises cash on hand and demand deposits.	2.8
cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.	2.8
cash flows	Inflows and outflows of cash and cash equivalents.	2.8
cash-generating assets	Assets held with the primary objective of generating a commercial return.	21.14
cash-generating unit	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.	26.13
change in accounting estimate	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.	3.7
class of property, plant, and equipment	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.	17.13

Term	Definition	Location
close members of the family of an individual	Close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.	20.4
closing rate	The spot exchange rate at the reporting date.	4.10
combining operation	An operation that combines with one or more other operations to form the resulting entity in an amalgamation.	40.5
commencement of the lease term	The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).	13.8
comparable basis	The actual amounts presented on the same accounting basis, same classification basis, for the same entities, and for the same period as the approved budget.	24.7
composite social security programs	Programs established by legislation, and (a) Operate as multi-employer plans to provide post-employment benefits; as well as to (b) Provide benefits that are not consideration in exchange for service rendered by employees.	25.10
conditions on transferred assets	Stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.	23.7
consolidated financial statements	The financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.	34.6
construction contract	A contract, or a similar binding arrangement, specifically negotiated for the construction of	11.4

Term	Definition	Location
	an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.	
constructive obligation	An obligation that derives from an entity’s actions where: (a) By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.	19.18
contingent asset	A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.	19.18
contingent consideration	Usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.	40.5
contingent liability	(a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) A present obligation that arises from past events, but is not recognized because: (i) It is not probable that an outflow of resources embodying	19.18

Term	Definition	Location
	economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability.	
contingent rent	That portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g., percentage of future sales, amount of future use, future price indices, future market rates of interest).	13.8
contractor	An entity that performs construction work pursuant to a construction contract.	11.4
contributions from owners	Future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed.	1.7
control	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.	2.8
control of an asset	Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.	23.7
controlled entity	An entity that is controlled by another entity.	35.14

Term	Definition	Location
controlling entity	An entity that controls one or more entities.	35.14
cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.	16.7
cost plus or cost-based contract	A construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially based contract, an additional percentage of these costs or a fixed fee, if any.	11.4
costs of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.	21.14
costs to sell	The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.	27.9
credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	30.8
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	30.8
current replacement cost	The cost the entity would incur to acquire the asset on the reporting date.	12.9
current service cost	The increase in the present value of the defined benefit obligation resulting from employee service in the current period.	25.10
date of adoption of IPSASs	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.	33.9
decision maker	An entity with decision-making rights that is either a principal or an agent for other parties.	35.14

Term	Definition	Location
deemed cost	An amount used as a surrogate for acquisition cost or depreciated cost at a given date.	33.9
deficit or surplus	Is: (a) The present value of the defined benefit obligation less (b) The fair value of plan assets (if any).	39.8
defined benefit plans Applicable up to periods beginning on or before December 31, 2017.	Postemployment benefit plans other than defined contribution plans.	25.10
defined benefit plans Applicable for periods beginning on or after January 1, 2018.	Post-employment benefit plans other than defined contribution plans.	39.8
defined contribution plans Applicable up to periods beginning on or before December 31, 2017.	Postemployment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.	25.10
defined contribution plans Applicable for periods beginning on or after January 1, 2018.	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.	39.8
depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.	17.13
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.	17.13
derecognition	The removal of a previously recognized financial asset or financial liability from an entity's statement of financial position.	29.10

Term	Definition	Location
derivative	A financial instrument or other contract within the scope of [IPSAS 29] (see paragraphs 2–6) with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying"); (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) It is settled at a future date.	29.10
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.	31.16
distributions to owners	Future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.	1.7
economic entity	A controlling entity and its controlled entities.	1.7, 35.14
economic life	Either: (a) The period over which an asset is expected to yield economic benefits or service potential to one or more users; or (b) The number of production or similar units expected to be obtained from the asset by one or more users.	13.8

Term	Definition	Location
effective interest method	A method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest revenue or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IPSAS 9, *Revenue from Exchange Transactions*), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	29.10
employee benefits Applicable up to periods beginning on or before December 31, 2017.	All forms of consideration given by an entity in exchange for service rendered by employees.	25.10
employee benefits Applicable for periods beginning on or after January 1, 2018.	All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.	39.8

Term	Definition	Location
entity-specific value	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.	17.13
equity interests	For the purposes of this Standard, is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.	40.5
equity instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	28.9
equity method (relating to interests in other entities)	Method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.	36.8
events after the reporting date	Those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified: (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).	14.5
exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.	4.10
exchange rate	The ratio of exchange for two currencies.	4.10
exchange	Transactions in which one entity receives assets or services, or has liabilities	9.11

Term	Definition	Location
transactions	extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.	
executory contracts	Contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.	19.18
expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.	1.7
expenses paid through the tax system	Amounts that are available to beneficiaries regardless of whether or not they pay taxes.	23.7
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	9.11
fair value less costs to sell	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.	21.14
final budget	The original budget, adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period	24.7
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.	13.8
financial asset	Any asset that is: (a) Cash; (b) An equity instrument of another entity; (c) A contractual right: (i) To receive cash or another financial asset from another entity; or	

Term	Definition	Location
	(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or (d) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.	28.9
financial asset or financial liability at fair value through surplus or deficit	A financial asset or financial liability that meets either of the following conditions. (a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if: (i) It is acquired or incurred principally for the purpose of	29.10

Term	Definition	Location
	selling or repurchasing it in the near term; (ii) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). (b) Upon initial recognition it is designated by the entity as at fair value through surplus or deficit. An entity may use this designation only when permitted by paragraph 13 or when doing so results in more relevant information, because either: (i) It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (ii) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IPSAS 20, *Related Party Disclosures*), for example the entity's governing body and chief executive officer.	

Term	Definition	Location
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.	29.10
financial instrument	Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.	28.9
financial liability	Any liability that is: (a) A contractual obligation: (i) To deliver cash or another financial asset to another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or (b) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16,	28.9

Term	Definition	Location
	instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.	
	As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraph 15 and 16 or paragraphs 17 and 18.	
financing activities	Activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.	2.8
fines	Economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.	23.7
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.	29.10
first IPSAS financial statements	The first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with those IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.	33.9

Term	Definition	Location
first-time adopter	An entity that adopts accrual basis IPSASs for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.	33.9
fixed price contract	A construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.	11.4
forecast transaction	An uncommitted but anticipated future transaction.	29.10
foreign currency	A currency other than the functional currency of the entity.	4.10
foreign operation	An entity that is a controlled entity, associate, joint venture, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.	4.10
functional currency	The currency of the primary economic environment in which the entity operates.	4.10
general government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting	22.15
goodwill	An asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.	40.5
grantor (in a service concession arrangement)	Is the entity that grants the right to use the service concession asset to the operator.	32.8
gross investment in the lease	The aggregate of: (a) The minimum lease payments receivable by the lessor under a finance lease; and (b) Any unguaranteed residual value accruing to the lessor.	13.8
group of biological assets	An aggregation of similar living animals or plants.	27.9

Term	Definition	Location
guaranteed residual value	(a) For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and (b) For a lessor, that part of the residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor, that is financially capable of discharging the obligations under the guarantee.	13.8
harvest	The detachment of produce from a biological asset or the cessation of a biological asset's life processes.	27.9
hedged item	An asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged ([IPSAS 29] paragraphs 87–94 and Appendix A paragraphs AG131–AG141 elaborate on the definition of hedged items).	29.10
hedge effectiveness	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument (see [IPSAS 29] Appendix A paragraphs AG145–AG156).	29.10
hedging instrument	A designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item ([IPSAS 29] paragraphs 81–86 and Appendix A paragraphs AG127–AG130 elaborate on the definition of a hedging instrument).	29.10
held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity	29.10

Term	Definition	Location
	that an entity has the positive intention and ability to hold to maturity (see [IPSAS 29] Appendix A paragraphs AG29–AG38) other than: (a) Those that the entity upon initial recognition designates as at fair value through surplus or deficit; (b) Those that the entity designates as available for sale; and (c) Those that meet the definition of loans and receivables. An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that: (a) Are so close to maturity or the financial asset's call date (e.g., less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (b) Occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (c) Are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.	
identifiable	An asset is identifiable if it either: (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or	40.5

Term	Definition	Location
	(b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	
impairment	A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.	21.14
impairment loss of a cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable amount.	17.13
impairment loss of a non-cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable service amount.	17.13
impracticable (1)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	1.7
impracticable (2)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if: (a) The effects of the retrospective application or retrospective restatement are not determinable; (b) The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or (c) The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:	3.7

Term	Definition	Location
	(i) Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and (ii) Would have been available when the financial statements for that prior period were authorized for issue; from other information.	
inception of the lease	The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date: (a) A lease is classified as either an operating or a finance lease; and (b) In the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.	13.8
initial direct costs	Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.	13.8
intangible asset	An identifiable non-monetary asset without physical substance.	31.16
interest cost	The increase during a period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement.	25.10
interest in another entity	Refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an	37.7

Term	Definition	Location
	interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.	
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of: (a) The minimum lease payments; and (b) The unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor.	13.8
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.	30.8
inventories	Assets: (a) In the form of materials or supplies to be consumed in the production process; (b) In the form of materials or supplies to be consumed or distributed in the rendering of services; (c) Held for sale or distribution in the ordinary course of operations; or (d) In the process of production for sale or distribution.	12.9
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.	2.8
investment entity	An entity that: (a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.	35.14
investment property	Property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for:	16.7

Term	Definition	Location
	(a) Use in the production or supply of goods or services, or for administrative purposes; or (b) Sale in the ordinary course of operations.	
joint arrangement	An arrangement of which two or more parties have joint control.	36.8
joint control	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.	36.8
joint operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.	37.7
joint operator	A party to a joint operation that has joint control of that joint operation.	37.7
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.	36.8
joint venturer	A party to a joint venture that has joint control of that joint venture.	36.8
key management personnel	(a) All directors or members of the governing body of the entity; and (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: (i) Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; (ii) Any key advisors of that member; and	20.4

Term	Definition	Location
	(iii) Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.	
lease	An agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.	13.8
lease term	The non-cancelable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.	13.8
legal obligation	An obligation that derives from: (a) A contract (through its explicit or implicit terms); (b) Legislation; or (c) Other operation of law.	19.18
lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.	13.8
liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.	1.7
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.	30.8
loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:	29.10

Term	Definition	Location
	(a) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through surplus or deficit; (b) Those that the entity upon initial recognition designates as available for sale; or (c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.	
loans payable	Financial liabilities, other than short-term trade payables on normal credit terms.	30.8
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.	30.8
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.	1.7
minimum lease payments	The payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with: (a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) For a lessor, any residual value guaranteed to the lessor by: (i) The lessee; (ii) A party related to the lessee; or	13.8

Term	Definition	Location
	(iii) An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.	
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.	4.10
multi-employer plans Applicable up to periods beginning on or before December 31, 2017.	Defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that: (a) Pool the assets contributed by various entities that are not under common control; and (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.	25.10
multi-employer plans Applicable for periods beginning on or after January 1, 2018.	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) Pool the assets contributed by various entities that are not under common control; and (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.	39.8

Term	Definition	Location
multi-year budget	An approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7
mutual entity	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.	40.5
net assets/equity	The residual interest in the assets of the entity after deducting all its liabilities.	1.7
net defined benefit liability (asset)	The deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.	39.8
net interest on the net defined benefit liability (asset)	The change during the period in the net defined benefit liability (asset) that arises from the passage of time.	39.8
net investment in a foreign operation	The amount of the reporting entity's interest in the net assets/equity of that operation.	4.10
net investment in the lease	The gross investment in the lease discounted at the interest rate implicit in the lease.	13.8
net realizable value	The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.	12.9
non-cancelable lease	A lease that is cancelable only: (a) Upon the occurrence of some remote contingency; (b) With the permission of the lessor; (c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.	13.8

Term	Definition	Location
non-cash-generating assets	Assets other than cash-generating assets.	21.14
non-controlling interest	The net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.	35.14
non-exchange transactions	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.	9.11
non-monetary items	Items that are not monetary items.	10.7
notes	Contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.	1.7
obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.	19.18
onerous contract	A contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.	19.18
operating activities	The activities of the entity that are not investing or financing activities.	2.8
operating lease	A lease other than a finance lease.	13.8
operation	An integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.	40.5
operator (in a service concession arrangement)	Is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.	32.8

Term	Definition	Location
original budget	The initial approved budget for the budget period.	24.7
other long-term employee benefits Applicable up to periods beginning on or before December 31, 2017.	Employee benefits (other than postemployment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.	25.10
other long-term employee benefits Applicable for periods beginning on or after January 1, 2018.	All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.	39.8
other price risk	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 factors affecting all similar financial instruments traded in the market.	30.8
oversight	The supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.	20.4
owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes.	16.7
owners	For the purposes of this Standard, is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.	40.5
party to a joint arrangement	An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.	37.7

Term	Definition	Location
past due	A financial asset is past due when a counterparty has failed to make a payment when contractually due.	30.8
past service cost	The change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, postemployment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benifit obligation decreases).	25.10
plan assets Applicable up to periods beginning on or before December 31, 2017.	Comprise: (a) Assets held by a long-term employee benefit fund; and (b) Qualifying insurance policies.	25.10
plan assets Applicable for periods beginning on or after January 1, 2018.	Comprise: (a) Assets held by a long-term employee benefit fund; and (b) Qualifying insurance policies.	39.8
post-employment benefit plans Applicable up to periods beginning on or before December 31, 2017.	Formal or informal arrangements under which an entity provides postemployment benefits for one or more employees.	25.10
post-employment benefit plans Applicable for periods beginning on or after January 1, 2018.	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.	39.8
post-employment benefits	Employee benefits (other than termination benefits) which are payable after the completion of employment.	25.10

Term	Definition	Location
Applicable up to periods beginning on or before December 31, 2017.		
post-employment benefits Applicable for periods beginning on or after January 1, 2018.	Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.	39.8
power	Consists of existing rights that give the current ability to direct the relevant activities of another entity.	35.14
present value of a defined benefit obligation Applicable up to periods beginning on or before December 31, 2017.	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	25.10
present value of a defined benefit obligation Applicable for periods beginning on or after January 1, 2018.	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	39.8
presentation currency	The currency in which the financial statements are presented.	4.10
prior period errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that: (a) Was available when financial statements for those periods were authorized for issue; and (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.	3.7

Term	Definition	Location
	Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.	
property, plant, and equipment	Tangible items 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.	17.13
prospective application	Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are: (a) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change	3.7
protective rights	Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.	35.14
provision	A liability of uncertain timing or amount.	19.18
public sector combination	The bringing together of separate operations into one public sector entity.	40.5
public sector combination under common control	Is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.	40.5
puttable instrument	A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.	28.9

Term	Definition	Location
qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.	5.5
qualifying insurance policy Applicable up to periods beginning on or before December 31, 2017.	An insurance policy[1] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy: (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: (i) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	25.10
qualifying insurance policy Applicable for periods beginning on or after January 1, 2018.	An insurance policy[2] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy: (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: (i) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8

[1] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international or national standard dealing with insurance contracts).

[2] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international or national standard dealing with insurance contracts).

Term	Definition	Location
recoverable amount (of an asset or a cash-generating unit)	The higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.	26.13
recoverable amount (of property, plant, and equipment)	The higher of a cash-generating asset's fair value less costs to sell and its value in use.	17.13
recoverable service amount	The higher of a non-cash-generating asset's fair value less costs to sell and its value in use.	21.14
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.	29.10
related party	Parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include: (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity; (b) Associates (see IPSAS 7, *Investments in Associates*); (c) Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual; (d) Key management personnel, and close members of the family of key management personnel; and	20.4

Term	Definition	Location
	(e) Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.	
related party transaction	A transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.	20.4
relevant rights	Activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.	35.14
remeasurements of the net defined benefit liability (asset)	Comprise: (a) Actuarial gains and losses; (b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).	39.8
removal rights	Rights to deprive the decision maker of its decision-making authority.	35.14
remuneration of key management personnel	Any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.	20.4
reporting date	The date of the last day of the reporting period to which the financial statements relate.	2.8
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.	31.16

Term	Definition	Location
residual value (of property, plant, and equipment or an intangible asset)	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.	17.13
restrictions on transferred assets	Stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.	23.7
restructuring	A program that is planned and controlled by management, and materially changes either: (a) The scope of an entity's activities; or (b) The manner in which those activities are carried out.	19.18
resulting entity	The entity that is the result of two or more operations combining in an amalgamation	40.5
retrospective application	Applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.	3.7
retrospective restatement	Correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.	3.7
return on plan assets Applicable up to periods beginning on or before December 31, 2017.	The interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.	25.10
return on plan assets Applicable for periods beginning on or after January 1, 2018.	The interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less: (a) Any costs of managing the plan assets; and (b) Any tax payable by the plan itself, other than tax included in the actuarial	39.8

Term	Definition	Location
	assumptions used to measure the present value of the defined benefit obligation.	
revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.	1.7
revenue from a structured entity	Includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.	38.7
segment	A distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives and (b) making decisions about the future allocation of resources.	18.9
segment accounting policies	Accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.	18.27
segment assets	Are those operating assets that are employed by a segment in its operating activities, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments, or other revenue-producing assets. Segment assets do not include income tax or income tax-equivalent assets that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.	18.27

Term	Definition	Location
	Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue. Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8, *Interests in Joint Ventures*. Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.	
segment expense	An expense resulting from the operating activities of a segment that is directly attributable to the segment, and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include: (a) Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature; (b) Losses on sales of investments or losses on extinguishment of debt, unless the segment's operations are primarily of a financial nature; (c) An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method; (d) Income tax or income tax-equivalent expense that is recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents; or (e) General administrative expenses, head office expenses, and other expenses that	18.27

Term	Definition	Location
	arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis. Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8. For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidated or entity financial statements.	
segment liabilities	Those operating liabilities that result from the operating activities of a segment, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities. Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8. Segment liabilities do not include income tax or income tax equivalent liabilities that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.	18.27
segment revenue	Is revenue reported in the entity's statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or sales to external customers or from transactions with other	18.27

Term	Definition	Location
	segments of the same entity. Segment revenue does not include: (a) Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or (b) Gains on sales of investments or gains on extinguishment of debt, unless the segment's operations are primarily of a financial nature. Segment revenue includes an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, only if those items are included in consolidated or total entity revenue. Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.	
separate financial statements	Those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures*.	34.6
separate vehicle	A separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.	37.7

Term	Definition	Location
service concession arrangement	Is a binding arrangement between a grantor and an operator in which: (a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and (b) The operator is compensated for its services over the period of the service concession arrangement.	32.8
service concession asset	It is an asset used to provide public services in a service concession arrangement that: (a) Is provided by the operator which: (i) The operator constructs, develops, or acquires from a third party; or (ii) Is an existing asset of the operator; or (b) Is provided by the grantor which: (i) Is an existing asset of the grantor; or (ii) Is an upgrade to an existing asset of the grantor.	32.8
service cost	Comprises: (a) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (b) Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and (c) Any gain or loss on settlement.	39.8

Term	Definition	Location
settlement	A transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.	39.8
short-term employee benefits Applicable up to periods beginning on or before December 31, 2017.	Employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.	25.10
short-term employee benefits Applicable for periods beginning on or after January 1, 2018.	Employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.	39.8
significant influence (relating to related party transactions)	The power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 7.	20.4
significant influence (relating to interests in other entities)	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.	36.8
spot exchange rate	The exchange rate for immediate delivery.	4.10
state plans	Plans other than composite social security programs established by legislation that operate	25.10

Term	Definition	Location
Applicable up to periods beginning on or before December 31, 2017.	as if they are multi-employer plans for all entities in economic categories laid down in legislation.	
state plans Applicable for periods beginning on or after January 1, 2018.	Plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.	39.8
stipulations on transferred assets	Terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.	23.7
structured entity	Is: (a) In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or (b) In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.	38.7
tax expenditures	Preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.	23.7
taxable event	The event that the government, legislature, or other authority has determined will be subject to taxation.	23.7

Term	Definition	Location
taxes	Economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.	23.7
termination benefits Applicable up to periods beginning on or before December 31, 2017.	Employee benefits payable as a result of either: (a) An entity's decision to terminate an employee's employment before the normal retirement date; or (b) An employee's decision to accept voluntary redundancy in exchange for those benefits.	25.10
termination benefits Applicable for periods beginning on or after January 1, 2018.	Are employee benefits provided in exchange for the termination of an employee's employment as a result of either: (a) An entity's decision to terminate an employee's employment before the normal retirement date; or (b) An employee's decision to accept an offer of benefits in exchange for the termination of employment.	39.8
transaction costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see [IPSAS 29] Appendix A paragraph AG26). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.	29.10
transfers	Inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.	23.7
unearned finance revenue	The difference between: (a) The gross investment in the lease; and (b) The net investment in the lease.	13.8
unguaranteed residual value	That portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.	13.8

Term	Definition	Location
useful life (of a lease)	The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.	13.8
useful life (of a non-cash-generating asset)	Either: (a) The period of time over which an asset is expected to be used by the entity; or (b) The number of production or similar units expected to be obtained from the asset by the entity.	21.14
useful life (of property, plant, and equipment or an intangible asset)	Either: (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.	17.13
value in use of a cash-generating asset	The present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life	26.13
value in use of a non-cash-generating asset	The present value of the asset's remaining service potential.	21.14
vested employee benefits	Employee benefits that are not conditional on future employment.	25.10

Accrual IPSASs Issued as at January 31, 2017

Table A: List of IPSASs effective as at January 1, 2017

The 2017 Handbook includes all IPSASs. IPSASs show the latest amended text. Where an IPSAS includes paragraphs that are not yet effective these paragraphs are listed. Earlier application of the effective date of amended paragraphs is encouraged.

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 1—Presentation of Financial Statements (revised)	December 2006	January 1, 2008	5	Deleted	The Applicability of IPSASs	2016
			6	Deleted	The Applicability of IPSASs	2016
			7	Amended	The Applicability of IPSASs	2016
			12	Deleted	The Applicability of IPSASs	2016
			97	Amended	The Applicability of IPSASs	2016
			116	Amended	IPSAS 39	2016
			135	Amended	IPSAS 40	2016
			153I	New	The Applicability of IPSASs	2016
			153J	New	IPSAS 39	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			153K	New	IPSAS 40	2016
IPSAS 2—Cash Flow Statements	May 2000	July 1, 2001	3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			16	Deleted	The Applicability of IPSASs	2016
			63E	New	The Applicability of IPSASs	2016
IPSAS 3—Accounting Policies, Changes in Accounting Estimates and Errors (revised)	December 2006	January 1, 2008	5	Deleted	The Applicability of IPSASs	2016
			6	Deleted	The Applicability of IPSASs	2016
			59D	New	The Applicability of IPSASs	2016
IPSAS 4—The Effects of Changes in Foreign Exchange Rates (revised)	April 2008	January 1, 2010	6	Deleted	The Applicability of IPSASs	2016
			7	Deleted	The Applicability of IPSASs	2016
			71C	New	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 5—Borrowing Costs	May 2000	July 1, 2001	2	Deleted	The Applicability of IPSASs	2016
			3	Deleted	The Applicability of IPSASs	2016
			11	Deleted	The Applicability of IPSASs	2016
			42C	New	The Applicability of IPSASs	2016
IPSAS 9—Revenue from Exchange Transactions	July 2001	July 1, 2002	2	Deleted	The Applicability of IPSASs	2016
			3	Deleted	The Applicability of IPSASs	2016
			41C	New	The Applicability of IPSASs	2016
IPSAS 10—Financial Reporting in Hyperinflationary Economies	July 2001	July 1, 2002	2	Deleted	The Applicability of IPSASs	2016
			3	Deleted	The Applicability of IPSASs	2016
			22	Amended	IPSAS 40	2016
			38D	New	The Applicability of IPSASs	2016
			38E	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 11—Construction Contracts	July 2001	July 1, 2002	2	Deleted	The Applicability of IPSASs	2016
			3	Deleted	The Applicability of IPSASs	2016
			45	Amended	The Applicability of IPSASs	2016
			57B	New	The Applicability of IPSASs	2016
IPSAS 12—Inventories (revised)	December 2006	January 1, 2008	4	Deleted	The Applicability of IPSASs	2016
			5	Deleted	The Applicability of IPSASs	2016
			51D	New	The Applicability of IPSASs	2016
IPSAS 13—Leases (revised)	December 2006	January 1, 2008	3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			85D	New	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 14—Events After the Reporting Date (revised)	December 2006	January 1, 2008	3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			15	Amended	The Applicability of IPSASs	2016
			21	Amended	The Applicability of IPSASs	2016
			31	Amended	IPSAS 40	2016
			32D	New	The Applicability of IPSASs	2016
			32E	New	IPSAS 40	2016
IPSAS 16—Investment Property (revised)	December 2006	January 1, 2008	3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			9	Amended	The Applicability of IPSASs	2016
			18A	New	IPSAS 40	2016
			51A	New	Impairment of Revalued Assets	2016
			87	Amended	IPSAS 40	2016
			90	Amended	IPSAS 40	2016
			101D	New	The Applicability of IPSASs	2016
			101E	New	IPSAS 40	2016
IPSAS 17—Property, Plant, and Equipment (revised)	December 2006	January 1, 2008	3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			31	Amended	IPSAS 39	2016
			51A	New	Impairment of Revalued Assets	2016
			60	Amended	IPSAS 40	2016
			88	Amended	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			107K	New	The Applicability of IPSASs	2016
			107L	New	Impairment of Revalued Assets	2016
			107M	New	IPSAS 39	2016
			107N	New	IPSAS 40	2016
IPSAS 18—Segment Reporting	June 2002	July 1,2003	2	Deleted	The Applicability of IPSASs	2016
			3	Deleted	The Applicability of IPSASs	2016
			16	Amended	The Applicability of IPSASs	2016
			24	Amended	The Applicability of IPSASs	2016
			34	Amended	IPSAS 40	2016
			37	Amended	IPSAS 40	2016
			38	Amended	The Applicability of IPSASs	2016
			41	Amended	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			76D	New	The Applicability of IPSASs	2016
			76E	New	IPSAS 40	2016
IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets	October 2002	January 1, 2004	2	Deleted	The Applicability of IPSASs	2016
			3	Deleted	The Applicability of IPSASs	2016
			4A	New	IPSAS 40	2016
			14	Amended	IPSAS 39	2016
			111E	New	The Applicability of IPSASs	2016
			111F	New	IPSAS 39	2016
			111G	New	IPSAS 40	2016
IPSAS 20—Related Party Disclosures	October 2002	January 1, 2004	2	Deleted	The Applicability of IPSASs	2016
			3	Deleted	The Applicability of IPSASs	2016
			38	Amended	IPSAS 39	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			42D	New	The Applicability of IPSASs	2016
			42E	New	IPSAS 39	2016
IPSAS 21—Impairment of Non-Cash-Generating Assets	December 2004	January 1, 2006	2	Amended	Impairment of Revalued Assets	2016
			3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			6	Amended	The Applicability of IPSASs	2016
			7	Deleted	Impairment of Revalued Assets	2016
			11	Deleted	Impairment of Revalued Assets	2016
			14	Amended	IPSAS 40	2016
			15	Deleted	The Applicability of IPSASs	2016
			20	New	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			20A	New	IPSAS 40	2016
			21	Amended	The Applicability of IPSASs	2016
			43	Amended	IPSAS 39	2016
			54	Amended	Impairment of Revalued Assets	2016
			54A	New	Impairment of Revalued Assets	2016
			69	Amended	Impairment of Revalued Assets	2016
			69A	New	Impairment of Revalued Assets	2016
			73	Amended	Impairment of Revalued Assets	2016
			81A	New	Impairment of Revalued Assets	2016
			82E	New	The Applicability of IPSASs	2016
			82F	New	Impairment of Revalued Assets	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			82G	New	IPSAS 39	2016
			82H	New	IPSAS 40	2016
IPSAS 22—Disclosure of Information About the General Government Sector	December 2006	January 1, 2008	3	Amended	The Applicability of IPSASs	2016
			16	Deleted	The Applicability of IPSASs	2016
			22	Amended	The Applicability of IPSASs	2016
			47D	New	The Applicability of IPSASs	2016
IPSAS 23—Revenue from Non-Exchange Transactions (Taxes and Transfers)	December 2006	June 30, 2008	1	Amended	IPSAS 40	2016
			2	Amended	IPSAS 40	2016
			3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			6	Amended	IPSAS 40	2016
			124D	New	The Applicability of IPSASs	2016
			124E	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 24—Presentation of Budget Information in Financial Statements	December 2006	January 1, 2009	3	Amended	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			46	Amended	The Applicability of IPSASs	2016
			54C	New	The Applicability of IPSASs	2016
IPSAS 25—Employee Benefits	February 2008	January 1, 2011	8	Deleted	The Applicability of IPSASs	2016
			9	Deleted	The Applicability of IPSASs	2016
			177C	New	The Applicability of IPSASs	2016
IPSAS 26 — Impairment of Cash-Generating Assets	February 2008	April 1, 2009	2	Amended	Impairment of Revalued Assets IPSAS 39 IPSAS 40	2016
			3	Deleted	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			4	Deleted	The Applicability of IPSASs	2016
			5	Amended	The Applicability of IPSASs	2016
			6	Deleted	Impairment of Revalued Assets	2016
			7	Deleted	IPSAS 40	2016
			11	Deleted	Impairment of Revalued Assets	2016
			18	Amended	The Applicability of IPSASs	2016
			18A	New	IPSAS 40	2016
			20A	New	IPSAS 40	2016
			23	Amended	IPSAS 40	2016
			71	Amended	IPSAS 40	2016
			73	Amended	Impairment of Revalued Assets	2016
			73A	New	Impairment of Revalued Assets	2016
			76	Amended	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			88	Amended	IPSAS 40	2016
			90A	New	IPSAS 40	2016
			90B	New	IPSAS 40	2016
			90C	New	IPSAS 40	2016
			90D	New	IPSAS 40	2016
			90E	New	IPSAS 40	2016
			90F	New	IPSAS 40	2016
			90G	New	IPSAS 40	2016
			90H	New	IPSAS 40	2016
			90I	New	IPSAS 40	2016
			90J	New	IPSAS 40	2016
			90K	New	IPSAS 40	2016
			90L	New	IPSAS 40	2016
			90M	New	IPSAS 40	2016
			90N	New	IPSAS 40	2016
			90O	New	IPSAS 40	2016
			91	Amended	IPSAS 40	2016
			92	Amended	IPSAS 40	2016
			96	Deleted	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			97A	New	IPSAS 40	2016
			97B	New	IPSAS 40	2016
			97C	New	IPSAS 40	2016
			97D	New	IPSAS 40	2016
			97E	New	IPSAS 40	2016
			97F	New	IPSAS 40	2016
			97G	New	IPSAS 40	2016
			97H	New	IPSAS 40	2016
			98	Amended	IPSAS 40	2016
			99	Amended	IPSAS 40	2016
			100	Amended	IPSAS 40	2016
			102	Amended	IPSAS 40	2016
			103	Amended	IPSAS 40	2016
			106	Amended	IPSAS 40	2016
			107	Amended	IPSAS 40	2016
			108	Amended	Impairment of Revalued Assets IPSAS 40	2016
			108A	New	Impairment of Revalued Assets	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			110	Amended	IPSAS 40	2016
			111	Amended	IPSAS 40	2016
			111A	New	IPSAS 40	2016
			111B	New	IPSAS 40	2016
			115	Amended	Impairment of Revalued Assets	2016
			120	Amended	IPSAS 40	2016
			122	Amended	IPSAS 40	2016
			122A	New	IPSAS 40	2016
			123	Amended	IPSAS 40	2016
			124	Amended	Impairment of Revalued Assets IPSAS 40	2016
			125	Amended	IPSAS 40	2016
			126G	New	The Applicability of IPSASs	2016
			126H	New	Impairment of Revalued Assets	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			126I	New	IPSAS 39	2016
			126J	New	IPSAS 40	2016
IPSAS 27—Agriculture	December 2009	April 1, 2011	7	Deleted	The Applicability of IPSASs	2016
			8	Deleted	The Applicability of IPSASs	2016
			48	Amended	IPSAS 40	2016
			56E	New	The Applicability of IPSASs	2016
			56F	New	IPSAS 40	2016
IPSAS 28—Financial Instruments: Presentation	January 2010	January 1, 2013	3	Amended	IPSAS 39	2016
			7	Deleted	The Applicability of IPSASs	2016
			8	Deleted	The Applicability of IPSASs	2016
			60D	New	The Applicability of IPSASs	2016
			60E	New	IPSAS 39	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 29—Financial Instruments: Recognition and Measurement	January 2010	January 1, 2013	2	Amended	IPSAS 39 IPSAS 40	2016
			7	Deleted	The Applicability of IPSASs	2016
			8	Deleted	The Applicability of IPSASs	2016
			125E	New	The Applicability of IPSASs	2016
			125F	New	IPSAS 39	2016
			125G	New	IPSAS 40	2016
			AG35	Amended	IPSAS 40	2016
			AG131	Amended	IPSAS 40	2016
			B4	Amended	IPSAS 40	2016
IPSAS 30—Financial Instruments: Disclosures	January 2010	January 1, 2013	3	Amended	IPSAS 39	2016
			6	Deleted	The Applicability of IPSASs	2016
			7	Deleted	The Applicability of IPSASs	2016
			52D	New	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			52E	New	IPSAS 39	2016
IPSAS 31—Intangible Assets	January 2010	April 1, 2011	3	Amended	IPSAS 40	2016
			4	Deleted	The Applicability of IPSASs	2016
			5	Deleted	The Applicability of IPSASs	2016
			6	Amended	IPSAS 39 IPSAS 40	2016
			18	Amended	IPSAS 40	2016
			18A	New	IPSAS 40	2016
			24	Amended	IPSAS 40	2016
			26A	New	IPSAS 40	2016
			35	Amended	IPSAS 39	2016
			39A	New	IPSAS 40	2016
			39B	New	IPSAS 40	2016
			39C	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			39D	New	IPSAS 40	2016
			39E	New	IPSAS 40	2016
			40	Amended	IPSAS 40	2016
			41	Amended	IPSAS 40	2016
			64	Amended	IPSAS 39	2016
			66	Amended	IPSAS 40	2016
			67	Amended	IPSAS 40	2016
			93A	New	IPSAS 40	2016
			110	Amended	Impairment of Revalued Assets IPSAS 40	2016
			114A	New	IPSAS 40	2016
			117	Amended	IPSAS 40	2016
			132F	New	The Applicability of IPSASs	2016
			132G	New	Impairment of Revalued Assets	2016
			132H	New	IPSAS 39	2016
			132I	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 32—Service Concession Arrangements: Grantor	October 2011	January 1, 2014	3	Deleted	The Applicability of IPSASs	2016
			4	Deleted	The Applicability of IPSASs	2016
			36C	New	The Applicability of IPSASs	2016
IPSAS 33—First-time Adoption of Accrual Basis IPSASs	January 2015	January 1, 2017	7	Deleted	The Applicability of IPSASs	2016
			8	Deleted	The Applicability of IPSASs	2016
			36	Amended	IPSAS 39	2016
			62A	New	IPSAS 40	2016
			62B	New	IPSAS 40	2016
			62C	New	IPSAS 40	2016
			86	Amended	IPSAS 40	2016
			102	Amended	IPSAS 39	2016
			104	Amended	IPSAS 39	2016
			105	Amended	IPSAS 39	2016
			106	Deleted	IPSAS 39	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			107	Deleted	IPSAS 39	2016
			129	Amended	IPSAS 40	2016
			130	Amended	IPSAS 40	2016
			132	Amended	IPSAS 40	2016
			154A	New	The Applicability of IPSASs	2016
			154B	New	IPSAS 39	2016
			154C	New	IPSAS 40	2016
IPSAS 34—Separate Financial Statements	January 2015	January 1, 2017	4	Deleted	The Applicability of IPSASs	2016
			5	Deleted	The Applicability of IPSASs	2016
			32A	New	The Applicability of IPSASs	2016
IPSAS 35—Consolidated Financial Statements	January 2015	January 1, 2017	4	Amended	IPSAS 40	2016
			6	Amended	IPSAS 39	2016
			8	Amended	The Applicability of IPSASs	2016
			11	Deleted	The Applicability of IPSASs	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			12	Deleted	The Applicability of IPSASs	2016
			13	Deleted	The Applicability of IPSASs	2016
			40	Amended	IPSAS 40	2016
			52	Amended	IPSAS 40	2016
			55A	New	IPSAS 40	2016
			56	Amended	IPSAS 40	2016
			57	Amended	IPSAS 40	2016
			63	Amended	IPSAS 40	2016
			79A	New	The Applicability of IPSASs	2016
			79B	New	IPSAS 39	2016
			79C	New	IPSAS 40	2016
			79D	New	IPSAS 40	2016
IPSAS 36—Investments in Associates and Joint Ventures	January 2015	January 1, 2017	6	Deleted	The Applicability of IPSASs	2016
			7	Deleted	The Applicability of IPSASs	2016
			26	Amended	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			31	Amended	IPSAS 40	2016
			33	Amended	IPSAS 40	2016
			34A	New	IPSAS 40	2016
			34B	New	IPSAS 40	2016
			51A	New	The Applicability of IPSASs	2016
			51B	New	IPSAS 40	2016
			51C	New	IPSAS 40	2016
IPSAS 37—Joint Arrangements	January 2015	January 1, 2017	5	Deleted	The Applicability of IPSASs	2016
			6	Deleted	The Applicability of IPSASs	2016
			24A	New	IPSAS 40	2016
			32	Amended	IPSAS 40	2016
			41A	New	IPSAS 40	2016
			42A	New	The Applicability of IPSASs	2016
			42B	New	IPSAS 40	2016
			42C	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG33A	New	IPSAS 40	2016
			AG33B	New	IPSAS 40	2016
			AG33C	New	IPSAS 40	2016
			AG33D	New	IPSAS 40	2016
IPSAS 38—Disclosures in Interests in Other Entities	January 2015	January 1, 2017	4	Deleted	The Applicability of IPSASs	2016
			5	Deleted	The Applicability of IPSASs	2016
			6	Deleted	The Applicability of IPSASs	2016
			61A	New	The Applicability of IPSASs	2016
			61B	New	IPSAS 39	2016

Table B: List of IPSASs not yet Effective as at January 1, 2017

IPSAS	Issued	Original Effective Date On or After	Other IPSASs Affected
The Applicability of IPSASs	April 2016	January 1, 2018	IPSAS 1 IPSAS 2 IPSAS 3 IPSAS 4 IPSAS 5 IPSAS 9 IPSAS 10 IPSAS 11 IPSAS 12 IPSAS 13 IPSAS 14 IPSAS 16 IPSAS 17 IPSAS 18 IPSAS 19 IPSAS 20 IPSAS 21 IPSAS 22 IPSAS 23

IPSAS	Issued	Original Effective Date On or After	Other IPSASs Affected
			IPSAS 24 IPSAS 25 IPSAS 26 IPSAS 27 IPSAS 28 IPSAS 29 IPSAS 30 IPSAS 31 IPSAS 32 IPSAS 33 IPSAS 34 IPSAS 35 IPSAS 36 IPSAS 37 IPSAS 38

IPSAS	Issued	Original Effective Date On or After	Other IPSASs Affected
IPSAS 39—Employee Benefits	July 2016	January 1, 2018	IPSAS 1 IPSAS 17 IPSAS 19 IPSAS 20 IPSAS 21 IPSAS 26 IPSAS 28 IPSAS 29 IPSAS 30 IPSAS 31 IPSAS 33 IPSAS 35 IPSAS 38
Impairment of Revalued Assets	July 2016	January 1, 2018	IPSAS 17 IPSAS 21 IPSAS 26 IPSAS 31

IPSAS	Issued	Original Effective Date On or After	Other IPSASs Affected
IPSAS 39—Employee Benefits	July 2016	January 1, 2018	IPSAS 1 IPSAS 17 IPSAS 19 IPSAS 20 IPSAS 21 IPSAS 26 IPSAS 28 IPSAS 29 IPSAS 30 IPSAS 31 IPSAS 33 IPSAS 35 IPSAS 38
IPSAS 40—Public Sector Combinations	January 2017	January 1, 2019	IPSAS 1 IPSAS 10 IPSAS 14 IPSAS 16 IPSAS 17 IPSAS 18

IPSAS	Issued	Original Effective Date On or After	Other IPSASs Affected
			IPSAS 19 IPSAS 21 IPSAS 23 IPSAS 26 IPSAS 27 IPSAS 29 IPSAS 31 IPSAS 33 IPSAS 35 IPSAS 36 IPSAS 37

Table C: List of IPSASs no Longer Effective at January 1, 2017

This Table is a list of those IPSASs that are no longer applicable as they have been superceeded and/or removed.

IPSAS	Issued	Original Effective Date On or After	Reason and Date No Longer Effective
IPSAS 6—Consolidated and Separate Financial Statements (revised)	December 2006	January 1, 2008	IPSAS 6 is superseded by IPSASs 34–35 from periods beginning on or after January 1, 2017.
IPSAS 7—Investments in Associates (revised)	December 2006	January 1, 2008	IPSAS 7 is superseded by IPSASs 36 from periods beginning on or after January 1, 2017.
IPSAS 8—Interests in Joint Ventures (revised)	December 2006	January 1, 2008	IPSAS 8 is superseded by IPSASs 37 from periods beginning on or after January 1, 2017.
IPSAS 15—Financial Instruments: Disclosure and Presentation	December 2001	January 1, 2003	IPSAS 15 is superseded by IPSASs 28–30 from periods beginning on or after January 1, 2013.

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ISBN: 978-1-60815-339-8