Exposure Draft 89
April 2024
Comments due: June 17, 2024

IPSAS®

Proposed International Public Sector Accounting Standard®

Amendments to Consider IFRIC Interpretations

IPSASB International Public Sector Accounting Standards Board®

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

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

In meeting this objective, the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations* was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by June 17, 2024.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Comments must be received in English to be considered. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English.

IPSASB's IFRIC Alignment Narrow Scope Amendments Project

This project considers seven IFRIC and SIC Interpretations that were issued by the IFRS Interpretations Committee, but had not yet been considered by the IPSASB, to determine their applicability to the public sector. In its assessment, the IPSASB considered whether public sector entities may face similar application issues and whether incorporating guidance based on the Interpretations into IPSAS would help clarify the application of existing accounting principles.

The IPSASB intends to consider the applicability of future IFRIC Interpretations as they are issued by the IFRS Interpretations Committee.

Objective of this ED

The objective of the ED is to propose amendments to IPSAS to clarify the application of existing principles in IPSAS. The proposed amendments are aligned with Interpretations developed by the IFRS Interpretations Committee.

Guide for Respondents

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

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1:

The IPSASB proposes amendments to IPSAS based on five IFRIC Interpretations developed by the IFRS Interpretations Committee, as presented in **Table 1**, because the guidance is applicable to the public sector (see Basis for Conclusions paragraphs in the respective IPSAS). Do you agree with the proposed amendments? If not, please explain your reasons.

Table 1: Amendments to IPSAS to Consider IFRIC Interpretations

IFRIC Interpretation	Proposed Amendments to IPSAS [Note 1]		Summary of Proposed Amendments
IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*	Appendix B and Illustrative Examples	To clarify how an entity should account for specific changes in estimates of existing liabilities to dismantle, remove and restore a property, plant, and equipment asset in the scope of IPSAS 45, or right-of-use asset in the scope of IPSAS 43. (See **Part 1**)
	IPSAS 43, *Leases*	Reference to IPSAS 19, Appendix B	
	IPSAS 45, *Property, Plant, and Equipment*	Reference to IPSAS 19, Appendix B	
IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	IPSAS 19	Appendix C	To clarify how an entity that is a contributor to a decommissioning fund should account for its obligation to pay decommissioning costs and its related interest in that fund. (See **Part 2**)
IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	IPSAS 10, *Financial Reporting in Hyperinflationary Economies*	Appendix A	To clarify how an entity identifies the existence of hyperinflation in the economy of its functional currency when the economy was not hyperinflationary in the prior period. (See **Part 3**)
IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	IPSAS 39, *Employee Benefits*	Appendix AA and Illustrative Examples	To clarify how an entity should consider limits on the defined benefit asset and minimum funding requirements when accounting for its post-employment defined benefits or other long-term employee defined benefits. (See **Part 4**)
IFRIC 21, *Levies*	IPSAS 19	Appendix D and Illustrative Examples	To clarify how an entity should account for an obligation to pay levies imposed by a government. (See **Part 5**)

[Note 1]: Parts 1, 2, and 5 all propose amendments to IPSAS 19. The IPSASB has proposed a single paragraph for the transitional provision (paragraph 110B), effective date (paragraph 111P), and Basis for Conclusion (paragraph BC27) in each respective Part, to reflect the proposed amendments. These paragraphs have been repeated in Parts 1, 2, and 5 in this ED, but will not be repeated in the final Pronouncement.

Specific Matter for Comment 2:

The IPSASB decided not to propose amendments to IPSAS based on two Interpretations, as presented in **Table 2**, for the rationale listed below. Do you agree with the IPSASB's decision not to propose amendments to IPSAS for these two Interpretations? If not, please explain your reasons, and indicate where the guidance should be included and why.

Table 2: IFRIC and SIC Interpretations not proposed for inclusion in IPSAS

IFRIC or SIC Interpretation	Summary of IFRIC or SIC Interpretation	IPSASB's Rationale for not Incorporating into IPSAS
IFRIC 6, *Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*	To clarify when an entity that produces electrical and electronic equipment for household use and is required under legislation to pay e-waste management costs should recognize a provision for waste management costs.	The IPSASB noted that there are rare circumstances where a public sector entity applying IPSAS would be a producer of electrical and electronic equipment for household use. Thus, the IPSASB decided that the guidance in IFRIC 6 is not applicable or useful for the public sector.
SIC-7, *Introduction of the Euro*	To clarify how an entity in a country participating in the Economic and Monetary Union (EMU) should account for the change from its national currency to the euro.	The IPSASB noted that there is limited applicability of the guidance for the international public sector, as-is. Further work is required to consider other challenges in applying IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* in the international public sector, including dollarization and other current or prospective monetary unions. Thus, the IPSASB decided to further consider the application of IPSAS 4 in its future work program.

EXPOSURE DRAFT 89, AMENDMENTS TO CONSIDER IFRIC INTERPRETATIONS

CONTENTS

Amendment: Part 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities

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

Paragraphs 110B and 111P, Appendix B (paragraphs B1-B8), Appendix C (paragraphs C1-C13), and Appendix D (paragraphs D1-D11) are added. New text is underlined.

…

Transitional Provision

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110B. *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year] added Appendix B, Appendix C, and Appendix D. Changes in accounting policies and changes in accounting estimates shall be accounted for according to the requirements of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Effective Date

…

111P. Appendix B (paragraphs B1-B8), Appendix C (paragraphs C1-C13), and Appendix D (paragraphs D1-D11) were added by *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, [Year], it shall disclose that fact.

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Appendix B

Changes in Existing Decommissioning, Restoration and Similar Liabilities

This Appendix is an integral part of IPSAS 19.

Introduction

B1. Many entities have obligations to dismantle, remove and restore items of property, plant, and equipment. In this Appendix, such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under paragraph 14(c) of IPSAS 45, *Property, Plant, and Equipment*, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Similarly, under paragraph 25(d) of IPSAS 43, *Leases*, the cost of the right-of-use asset includes the initial estimate of costs to be incurred by a lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. IPSAS 19 contains requirements on how to measure decommissioning, restoration and similar liabilities. This

Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

B2. This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

(a) Recognized as part of the cost of an item of property, plant, and equipment in accordance with IPSAS 45 or as part of the cost of a right-of-use asset in accordance with IPSAS 43; and

(b) Recognized as a liability in accordance with IPSAS 19.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

B3. This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

(a) A change in the estimated transfer of resources embodying economic benefits or service potential (e.g., cash flows) required to settle the obligation;

(b) A change in the current market-based discount rate as defined in paragraph 56 of IPSAS 19 (this includes changes in the time value of money and the risks specific to the liability); and

(c) An increase that reflects the passage of time (also referred to as the unwinding of the discount).

Application of IPSAS 19 to Changes in Existing Decommissioning, Restoration and Similar Liabilities

B4. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the transfer of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs B5–B7 below.

B5. If the related asset is measured using the historical cost model:

(a) Subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

(b) The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in surplus or deficit.

(c) If the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

B6. If the related asset is measured using the current value model:

(a) Changes in the liability alter the revaluation surplus or deficit previously recognized on that asset, so that:

(i) A decrease in the liability shall (subject to (b)) be recognized in net assets/equity and increase the revaluation surplus within net assets/equity, except that it shall be recognized in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognized in surplus or deficit;

(ii) An increase in the liability shall be recognized in surplus or deficit, except that it shall be recognized in net assets/equity and reduce the revaluation surplus within net assets/equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) In the event that a decrease in the liability exceeds the carrying amount that would have been recognized had the asset been carried under the historical cost model, the excess shall be recognized immediately in surplus or deficit.

(c) A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be recognized in surplus or deficit or in net assets/equity under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) IPSAS 1, *Presentation of Financial Statements* requires disclosure in the statement of changes in net assets/equity of each component of net assets/equity. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

B7. The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognized in surplus or deficit as they occur. This applies under both the historical cost model and the current value model.

B8. The periodic unwinding of the discount shall be recognized in surplus or deficit as a finance cost as it occurs. Capitalization under IPSAS 5, *Borrowing Costs* is not permitted.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 19.

…

Revisions of IPSAS 19 as a result of *[draft] Amendments to Consider IFRIC Interpretations*

BC27. The IPSASB reviewed the requirements of the following IFRIC Interpretations, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions:

a) IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, issued by the IASB in 2004;

b) IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, issued by the IASB in 2004; and

c) IFRIC 21, *Levies*, issued by the IASB in 2013.

The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS. The IPSASB concluded that guidance based on IFRIC 1, IFRIC 5, and IFRIC 21 were best situated in this Standard.

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Illustrative Examples

~~This example accompanies~~ These examples accompany, but ~~is~~ are not part of, IPSAS 19.

Measurement

Example 1: Present Value of a Provision

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IE1. The expected value of a provision at the end of year 5 is CU2000 ~~currency units~~. This expected value has not been risk-adjusted. An appropriate discount rate that takes account of the risk associated with this cash flow has been estimated at 12%.

…

Changes in Existing Decommissioning, Restoration and Similar Liabilities

IE3. Examples 2-4 illustrate how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities, as presented in Appendix B of IPSAS 19, using the following common facts:

An entity has a nuclear power plant held primarily for its financial capacity and a related decommissioning liability. The nuclear power plant started operating on January 1, 20X0. The plant has a useful life of 40 years. Its initial cost was CU120,000[1]; this included an amount for decommissioning costs of CU10,000, which represented CU70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on December 31.

Example 2: Historical Cost Model

IE4. On December 31, 20X9, the plant is 10 years old. Accumulated depreciation is CU30,000 (CU120,000 × 10/40 years). Because of the unwinding of discount (5 per cent) over the 10 years, the decommissioning liability has grown from CU10,000 to CU16,300.

IE5. On December 31, 20X9, the discount rate has not changed. However, the entity estimates that, as a result of technological advances, the net present value of the decommissioning liability has decreased by CU8,000. Accordingly, the entity adjusts the decommissioning liability from CU16,300 to CU8,300. On this date, the entity makes the following journal entry to reflect the change:

	CU	CU
Dr Decommissioning liability	8,000	
Cr Cost of asset		8,000

1 In these examples, monetary amounts are denominated in 'currency units (CU)'.

IE6. Following this adjustment, the carrying amount of the asset is CU82,000 (CU120,000 – CU8,000 – CU30,000), which will be depreciated over the remaining 30 years of the asset's life, giving a depreciation expense for the next year of CU2,733 (CU82,000 ÷ 30). The next year's finance cost for the unwinding of the discount will be CU415 (CU8,300 × 5 per cent).

IE7. If the change in the liability had resulted from a change in the discount rate, instead of a change in the estimated cash flows, the accounting for the change would have been the same but the next year's finance cost would have reflected the new discount rate.

Example 3: Current Value Model

IE8. The entity adopts the current value model in IPSAS 45 whereby the plant is revalued with sufficient regularity that the carrying amount does not differ materially from fair value as the plant is primarily held for its financial capacity. The entity's policy is to eliminate accumulated depreciation at the revaluation date against the gross carrying amount of the asset, in accordance with paragraph 31 of IPSAS 45.

IE9. When accounting for revalued assets to which decommissioning liabilities attach, it is important to understand the basis of the valuation obtained. For example:

(a) If an asset is valued using the income approach (e.g., discounted cash flows), some valuers may value the asset without deducting any allowance for decommissioning costs (a 'gross' valuation), whereas others may value the asset after deducting an allowance for decommissioning costs (a 'net' valuation), because an entity acquiring the asset will generally also assume the decommissioning obligation. For financial reporting purposes, the decommissioning obligation is recognized as a separate liability, and is not deducted from the asset. Accordingly, if the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability, so that the liability is not counted twice.

(b) If an asset is valued using cost approach (e.g., depreciated replacement cost), the valuation obtained may not include an amount for the decommissioning component of the asset. If it does not, an appropriate amount will need to be added to the valuation to reflect the depreciated replacement cost of that component.

IE10. Assume that a market-based discounted cash flow valuation of CU115,000 is obtained at December 31, 20X2. It includes an allowance of CU11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. The amounts included in the statement of financial position at December 31, 20X2 are therefore:

	CU
Asset at valuation (1)	126,600
Accumulated depreciation	nil
Decommissioning liability	(11,600)
Net assets	115,000
Accumulated surplus (2)	(10,600)
Revaluation surplus (3)	15,600

Notes:

1 Valuation obtained of CU115,000 plus decommissioning costs of CU11,600, allowed for in the valuation but recognized as a separate liability = CU126,600.

2 Three years' depreciation on original cost CU120,000 × 3/40 = CU9,000 plus cumulative discount on CU10,000 at 5 per cent compound = CU1,600; total CU10,600.

3 Revalued amount CU126,600 less previous net book value of CU111,000 (cost CU120,000 less accumulated depreciation CU9,000).

IE11. The depreciation expense for 20X3 is therefore CU3,420 (CU126,600 × 1/37) and the discount expense for 20X3 is CU600 (5 per cent of CU11,600). On December 31, 20X3, the decommissioning liability (before any adjustment) is CU12,200 and the discount rate has not changed. However, on that date, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by CU5,000. Accordingly, the entity adjusts the decommissioning liability from CU12,200 to CU7,200.

IE12. The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognized had the asset been carried under the historical cost model. If it had done, the excess would have been taken to surplus or deficit in accordance with Appendix B, Paragraph B6(b). The entity makes the following journal entry to reflect the change:

	CU	CU
Dr Decommissioning liability	5,000	
Cr Revaluation surplus		5,000

IE13. The entity decides that a full valuation of the asset is needed at December 31, 20X3, in order to ensure that the carrying amount does not differ materially from fair value. Suppose that the asset is now valued at CU107,000, which is net of an allowance of CU7,200 for the reduced decommissioning obligation that should be recognized as a separate liability. The valuation of the asset for financial reporting purposes, before deducting this allowance, is therefore CU114,200. The following additional journal entry is needed:

	CU	CU
Dr Accumulated depreciation (1)	3,420	
Cr Asset at valuation		3,420
Dr Revaluation surplus (2)	8,980	
Cr Asset at valuation (3)		8,980

Notes:

1 Eliminating accumulated depreciation of CU3,420 in accordance with the entity's accounting policy.

2 The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.

3 Previous valuation (before allowance for decommissioning costs) CU126,600, less cumulative depreciation of CU3,420, less new valuation (before allowance for decommissioning costs) CU114,200.

IE14. Following this valuation, the amounts included in the statement of financial position are:

	CU
Asset at valuation	114,200
Accumulated depreciation	nil
Decommissioning liability	(7,200)
Net assets	107,000
Accumulated surplus (1)	(14,620)
Revaluation surplus (2)	11,620

Notes:

1 CU10,600 at December 31, 20X2 plus 20X3's depreciation expense of CU3,420 and discount expense of CU600 = CU14,620.

2 CU15,600 at December 31, 20X2, plus CU5,000 arising on the decrease in the liability, less CU8,980 deficit on revaluation = CU11,620.

Example 4: Transition

IE15. The following example illustrates retrospective application of Appendix B of IPSAS 19 for preparers that already apply IPSAS. Retrospective application is required by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, where practicable. The example assumes that the entity:

(a) adopted IPSAS 19 on July 1, 20Y9;

(b) adopts Appendix B of IPSAS 19 on January 1, 20X5 (5.5 years later); and

(c) before the adoption of Appendix B of IPSAS 19, recognized changes in estimated cash flows to settle decommissioning liabilities as revenue or expense.

IE16. On December 31, 20X0, because of the unwinding of the discount (5 per cent) for one year, the decommissioning liability has grown from CU10,000 to CU10,500. In addition, based on recent facts, the entity estimates that the present value of the decommissioning liability has increased by CU1,500 and accordingly adjusts it from CU10,500 to CU12,000. In accordance with its former policy, the entity recognized the increase in the liability in surplus or deficit.

IE17. On January 1, 20X5, the entity makes the following journal entry to reflect the adoption of Appendix B of IPSAS 19:

	CU	CU
Dr Cost of asset	1,500	
Cr Accumulated depreciation		154
Cr Opening accumulated surplus		1,346

IE18. The cost of the asset is adjusted to what it would have been if the increase in the estimated amount of decommissioning costs at December 31, 20X0 had been capitalized on that date. This additional cost would have been depreciated over 39 years. Hence, accumulated depreciation on that amount at December 31, 20X4 would be CU154 (CU1,500 × 4/39 years).

IE19. Because, before adopting Appendix B of IPSAS 19 on January 1, 20X5, the entity recognized changes in the decommissioning liability in surplus or deficit, the net adjustment of CU1,346 is recognized as a credit to the opening accumulated surplus. This credit is not required to be disclosed in the financial statements, because of the restatement described below.

IE20. IPSAS 3 requires the comparative financial statements to be restated and the adjustment to opening accumulated surplus at the start of the comparative period to be disclosed. The equivalent journal entries at January 1, 20X4 are shown below. In addition, depreciation expense for the year ended December 31, 20X4 is increased by CU39 from the amount previously reported:

		CU	CU
Dr	Cost of asset	1,500	
Cr	Accumulated depreciation		115
Cr	Opening accumulated surplus		1,385

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Comparison with IAS 37

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- IPSAS 19 provides additional guidance on collective and individual services. It explains that public sector entities do not recognize a provision for "collective and individual services."
- IPSAS 19 includes authoritative text based on IFRIC Interpretations, whereas the IASB issues IFRICs as separate documents: Specifically, IPSAS 19 includes:
  - Appendix B, based on guidance in IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities;*
  - Appendix C, based on guidance in IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and*
  - Appendix D, based on IFRIC 21, *Levies*.

…

Amendments to IPSAS 43, *Leases*

Paragraph 30 is amended and 103H is added. New text is underlined.

…

Subsequent Measurement of the Right of Use Asset

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30. After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraphs 35 and 36. If an entity's initial measurement of a right-of-use asset included an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, or restoring the site or underlying asset under paragraph 25(d), for which it recognized a corresponding liability in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, the entity shall also apply Appendix B of IPSAS 19 in its subsequent measurement of the item.

…

Effective Date

…

103H. Paragraphs 30 was amended by *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, [Year], it shall disclose that fact.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43, Leases*.*

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Revisions of IPSAS 43 as a result of *[draft] Amendments to Consider IFRIC Interpretations*

BC105. The IPSASB reviewed the requirements of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, issued by the IASB in 2004, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. The IPSASB agreed that additional guidance should be added to IPSAS 43 and IPSAS 45, *Property, Plant, and Equipment* to direct users to relevant guidance in IPSAS 19.

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

Paragraph 25 is amended and 87C is added. New text is underlined.

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Subsequent Measurement (see paragraphs AG20-AG36)

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25. When the measurement requirements are applied to the item of property, plant, and equipment after recognition, an entity shall apply IPSAS 46. If an entity's initial measurement of an item of property, plant, and equipment included an initial estimate of the cost of dismantling and removing the item and restoring the site under paragraph 14(c), for which it recognized a corresponding liability in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, the entity shall also apply Appendix B of IPSAS 19 in its subsequent measurement of the item.

…

Effective Date

…

87C. Paragraphs 25 was amended by *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies

these amendments to financial statements for a period beginning before 1 January [Year], it shall disclose that fact.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

…

Revisions of IPSAS 45 as a result of *[draft] Amendments to Consider IFRIC Interpretations*

BC91. The IPSASB reviewed the requirements of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, issued by the IASB in 2004, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. The IPSASB agreed that additional guidance should be added to IPSAS 43, *Leases* and IPSAS 45 to direct users to relevant guidance in IPSAS 19.

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Amendment: Part 2 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

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

Paragraphs 110B and 111P, Appendix B (paragraphs B1-B8), Appendix C (paragraphs C1-C13), and Appendix D (paragraphs D1-D11) are added. New text is underlined.

…

Transitional Provision

…

110B. *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year] added Appendix B, Appendix C, and Appendix D. Changes in accounting policies and changes in accounting estimates shall be accounted for according to the requirements of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Effective Date

…

111P. Appendix B (paragraphs B1-B8), Appendix C (paragraphs C1-C13), and Appendix D (paragraphs D1-D11) were added by *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, [Year], it shall disclose that fact.

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Appendix C

Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Appendix is an integral part of IPSAS 19.

Introduction

C1. The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as ‘decommissioning funds’ or ‘funds’, is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as ‘decommissioning’.

C2. Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:

(a) Funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.

(b) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor.

(c) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realizable from the fund (based on past activity).

C3. Such funds generally have the following features:

(a) The fund is separately administered by independent trustees.

(b) Entities (contributors) make contributions to the fund, which are invested in a range of assets that may include both debt and equity investments, and are available to help pay the contributors' decommissioning costs. The trustees determine how contributions are invested, within the constraints set by the fund's governing documents and any applicable legislation or other regulations.

(c) The contributors retain the obligation to pay decommissioning costs. However, contributors are able to obtain reimbursement of decommissioning costs from the fund up to the lower of the decommissioning costs incurred and the contributor's share of assets of the fund.

(d) The contributors may have restricted access or no access to any surplus of assets of the fund over those used to meet eligible decommissioning costs.

C4. This Appendix applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

(a) The assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and

(b) A contributor's right to access the assets is restricted.

C5. A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of IPSAS 41, *Financial Instruments* and is not within the scope of this Standard.

C6. The issues addressed in this Appendix are:

(a) How should a contributor account for its interest in a fund?

(b) When a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

Application of IPSAS 19 to Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Accounting for an interest in a fund

C7. The contributor shall recognize its obligation to pay decommissioning costs as a liability and recognize its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.

C8. The contributor shall determine whether it has control or joint control of, or significant influence over, the fund by reference to IPSAS 35, *Consolidated Financial Statements*, IPSAS 37, *Joint Arrangements*, and IPSAS 36, *Investments in Associates and Joint Ventures*, respectively. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

C9. If a contributor does not have control or joint control of, or significant influence over, the fund, the contributor shall recognize the right to receive reimbursement from the fund as a reimbursement in accordance with this Standard. This reimbursement shall be measured at the lower of:

(a) the amount of the decommissioning obligation recognized; and

(b) the contributor's share of the current value of the net assets of the fund attributable to contributors.

Changes in the carrying amount of the right to receive reimbursement other than contributions to and payments from the fund shall be recognized in surplus or deficit in the period in which these changes occur.

Accounting for obligations to make additional contributions

C10. When a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of this Standard. The contributor shall recognize a liability only if it is probable that additional contributions will be made.

Disclosure

C11. A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.

C12. When a contributor has an obligation to make potential additional contributions that is not recognized as a liability (see paragraph C10), it shall make the disclosures required by paragraph 100 of this Standard.

C13. When a contributor accounts for its interest in the fund in accordance with paragraph C9, it shall make the disclosures required by paragraph 98(c) of this Standard.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 19.

…

Revisions of IPSAS 19 as a result of *[draft] Amendments to Consider IFRIC Interpretations*

BC27. The IPSASB reviewed the requirements of the following IFRIC Interpretations, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions:

a) IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, issued by the IASB in 2004;

b) IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, issued by the IASB in 2004; and

c) IFRIC 21, *Levies*, issued by the IASB in 2013.

The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS. The IPSASB concluded that guidance based on IFRIC 1, IFRIC 5, and IFRIC 21 were best situated in this Standard.

…

Comparison with IAS 37

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- IPSAS 19 provides additional guidance on collective and individual services. It explains that public sector entities do not recognize a provision for "collective and individual services."
- IPSAS 19 includes authoritative text based on IFRIC Interpretations, whereas the IASB issues IFRICs as separate documents: Specifically, IPSAS 19 includes:
    - Appendix B, based on guidance in IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities;*
    - Appendix C, based on guidance in IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and*
    - Appendix D, based on IFRIC 21, *Levies.*

…

Amendment: Part 3 – Applying the Restatement Approach under IPSAS 10, Financial Reporting in Hyperinflationary Economies

Amendments to IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

Paragraph 38G and Appendix A (paragraphs A1-A3) are added. New text is underlined.

…

Effective Date

…

38G. Appendix A (paragraphs A1-A3) were added by *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, [Year], it shall disclose that fact.

…

Appendix A

Applying the Restatement Approach under IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

This Appendix is an integral part of IPSAS 10.

A1. This Appendix provides guidance on how to apply the requirements of this Standard in a reporting period in which an entity identifies, using the criteria in paragraph 5, the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with this Standard. Specifically, this Appendix addresses:

(a) How should the requirement '... stated in terms of the measuring unit current at the end of the reporting period' in paragraph 11 be interpreted when an entity applies the Standard?

(b) How should an entity account for opening deferred tax items in its restated financial statements?

A2. In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of this Standard as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening statement of financial position at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired, and the liabilities were incurred or assumed until the reporting date. For non-monetary items carried in the opening statement of financial position at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the reporting date.

A3. After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 10.

…

Revisions of IPSAS 10 as a result of *[draft] Amendments to Consider IFRIC Interpretations*

BC4. The IPSASB reviewed the requirements of IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, issued by the IASB in 2005, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 10.

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Comparison with IAS 29

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- IPSAS 10 contains an illustrated example that illustrates the process of the restating of financial statements, using an indirect method, of an entity reporting in the currency of a hyperinflationary economy.
- IPSAS 10 includes authoritative text in Appendix A, based on guidance in IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*. The IASB issues IFRICs as separate documents.

Amendment: Part 4 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 175A and 176F and Appendix AA (paragraphs AA1-AA23) are added. New text is underlined.

…

Transitional Provision

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175A. *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year] added Appendix AA. An entity shall apply Appendix AA from the beginning of the first period presented in the first financial statements to which the Appendix applies. An entity shall recognize any initial adjustment arising from the application of Appendix AA in accumulated surpluses or deficits at the beginning of that period.

Effective Date

…

176F. Appendix AA (paragraphs AA1-AA23) were added by *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, [Year], it shall disclose that fact.

…

Appendix AA

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Appendix is an integral part of IPSAS 39.

Introduction

AA1. Paragraph 66 of this Standard limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plan and the asset ceiling. Paragraph 8 defines the asset ceiling as '*the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan*'. Identifying when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists, can be challenging.

AA2. Minimum funding requirements exist in many countries to improve the security of the post-employment benefit promise made to members of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.

AA3. Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

AA4. This Appendix applies to all post-employment defined benefits and other long-term employee defined benefits, and addresses:

(a) When refunds or reductions in future contributions should be regarded as available in accordance with the definition of the asset ceiling in paragraph 8;

(b) How a minimum funding requirement might affect the availability of reductions in future contributions; and

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

AA5. For the purpose of this Appendix, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

Application of IPSAS 39 to The Limit on a Defined Benefit Asset and Minimum Funding Requirements

Availability of a Refund or Reduction in Future Contributions

AA6. An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.

AA7. An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realize it at some point during the life of the plan or when the plan liabilities are settled. In particular, such an economic benefit may be available even if it is not realizable immediately at the reporting date.

AA8. The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognize economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.

AA9. In accordance with IPSAS 1, the entity shall disclose information about the key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This might include disclosure of any restrictions on the current realizability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

The Economic Benefit Available as a Refund

The Right to a Refund

AA10. A refund is available to an entity only if the entity has an unconditional right to a refund:

(a) During the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (e.g., in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or

(b) Assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or

(c) Assuming the full settlement of the plan liabilities in a single event (i.e., as a plan wind-up).

An unconditional right to a refund can exist whatever the funding level of a plan at the reporting date.

AA11. If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognize an asset.

Measurement of the Economic Benefit

AA12. An entity shall measure the economic benefit available as a refund as the amount of the surplus at the reporting date (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs.

AA13. In measuring the amount of a refund available when the plan is wound up (paragraph AA10(c)), an entity shall include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

AA14. If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realizable only at a future date.

The Economic Benefit Available as a Contribution Reduction

AA15. If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees.

AA16. An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the reporting date as determined by this Standard. Therefore, an entity shall assume no change to the benefits to be provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless the entity makes a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction.

The Effect of a Minimum Funding Requirement on the Economic Benefit Available as a Reduction in Future Contributions

AA17. An entity shall analyze any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) future service.

AA18. Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability in accordance with paragraphs AA22–AA23.

AA19. If there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of:

(a) Any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (i.e., paid the amount before being required to do so); and

(b) The estimated future service cost in each period in accordance with paragraphs AA15-AA16, less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).

AA20. An entity shall estimate the future minimum funding requirement contributions for future service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment described in paragraph AA19(a). An entity shall use assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the reporting date as determined by this Standard. The estimate shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the reporting date.

AA21. When an entity determines the amount described in paragraph AA19(b), if the future minimum funding requirement contributions for future service exceed the future service cost in any given period, that excess reduces the amount of the economic benefit available as a reduction in future contributions. However, the amount described in paragraph AA19(b) can never be less than zero.

When a minimum funding requirement may give rise to a liability

AA22. If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.

AA23. To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognize a liability when the obligation arises. The liability shall reduce the net defined benefit asset or increase the net defined benefit liability so that no gain or loss is expected to result from applying paragraph 66 of this Standard when the contributions are paid.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 39.

…

Revisions of IPSAS 39 as a result of *[draft] Amendments to Consider IFRIC Interpretations*

BC25. The IPSASB reviewed the requirements of IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, issued by the IASB in 2007 and amended in 2009, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 39.

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 39.

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Example 1: Effect of the Minimum Funding Requirement when there is a Surplus and the Minimum Funding Contributions Payable are Fully Refundable to the Entity

IE1. An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IPSAS 39) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the reporting date to contribute CU200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

	CU
Fair value of assets	1,200
Present value of defined benefit obligation under IPSAS 39	(1,100)
Surplus	100

IE2. Paragraph AA23 of Appendix AA clarifies that the entity is to recognize a liability to the extent that the contributions payable are not fully available. Payment of the contributions of CU200 will increase the surplus from CU100 to CU300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognized for the obligation to pay the contributions and the net defined benefit asset is CU100.

Example 2: Effect of a Minimum Funding Requirement when there is a Deficit and the Minimum Funding Contributions Payable would not be Fully Available

IE3. An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IPSAS 39) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the reporting date to pay additional contributions of CU300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the service cost. The year-end valuations for Plan B are set out below.

	CU
Fair value of assets	1,000
Present value of defined benefit obligation under IPSAS 39	(1,100)
Deficit	(100)

IE4. The payment of CU300 would change the deficit of CU100 to a surplus of CU200. Of this CU200, 60 per cent (CU120) is refundable.

IE5. Therefore, of the contributions of CU300, CU100 eliminates the deficit and CU120 (60 per cent of CU200) is available as an economic benefit. The remaining CU80 (40 per cent of CU200) of the contributions paid is not available to the entity.

IE6. Paragraph AA23 of Appendix AA clarifies that the entity is to recognize a liability to the extent that the additional contributions payable are not available to it.

IE7. Therefore, the net defined benefit liability is CU180, comprising the deficit of CU100 plus the additional liability of CU80 resulting from the requirements in Paragraph AA23 of Appendix AA. No other liability is recognized in respect of the statutory obligation to pay contributions of CU300.

	CU
Fair value of assets	1,000
Present value of defined benefit obligation under IPSAS 39	(1,100)
Deficit	(100)
Effect of the asset ceiling	(80)
Net defined benefit liability	(180)

IE8. When the contributions of CU300 are paid, the net defined benefit asset will be CU120.

Example 3: Effect of a Minimum Funding Requirement when the Contributions Payable would not be Fully Available and the Effect on the Economic Benefit Available as a Future Contribution Reduction

IE9. An entity has a funding level on the minimum funding basis (which it measures on a different basis from that required by IPSAS 39) of 95 per cent in Plan C. The minimum funding requirements require the entity to pay contributions to increase the funding level to 100 per cent over the next three years. The contributions are required to make good the deficit on the minimum funding basis (shortfall) and to cover future service.

IE10. Plan C also has a surplus at the reporting date of CU50, which cannot be refunded to the entity under any circumstances.

IE11. The nominal amounts of contributions required to satisfy the minimum funding requirements in respect of the shortfall and the future service for the next three years are set out below.

Year	Total contributions for minimum funding requirement (CU)	Contributions required to make good the shortfall (CU)	Contributions required to cover future service (CU)
1	135	120	15
2	125	112	13
3	115	104	11

IE12. The entity's present obligation in respect of services already received includes the contributions required to make good the shortfall but does not include the contributions required to cover future service.

IE13. The present value of the entity's obligation, assuming a discount rate of 6 per cent per year, is approximately CU300, calculated as follows:

[CU120/(1.06) + CU112/(1.06)^2 + CU104/(1.06)^3]

IE14. When these contributions are paid into the plan, the surplus (i.e., the fair value of assets less the present value of the defined benefit obligation) would, other things being equal, increase from CU50 to CU350 (CU300 + CU50).

IE15. However, the surplus is not refundable although an asset may be available as a future contribution reduction.

IE16. In applying paragraph AA19 of Appendix AA, the entity determines that there is no prepayment as described in paragraph AA19(a). The amounts available as a reduction in future contributions when applying paragraph AA19(b) are set out below.

Year	Service cost (CU)	Minimum contributions required to cover future service (CU)	Amount available as contribution reduction (CU)
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

IE17. Assuming a discount rate of 6 per cent, the present value of the economic benefit available as a future contribution reduction is therefore equal to:

(CU2)/(1.06) + CU0/(1.06)^2 + CU2/(1.06)^3 + CU4/(1.06)^4 ... = CU56

IE18. Paragraph AA23 of Appendix AA clarifies that the entity is to recognize a liability to the extent that the additional contributions payable will not be fully available. Therefore, the effect of the asset ceiling is CU294 (CU50 + CU300 – CU56).

IE19. The entity recognizes a net defined benefit liability of CU244 in the statement of financial position. No other liability is recognized in respect of the obligation to make contributions to fund the minimum funding shortfall.

	CU
Surplus	50
Net defined benefit asset (before consideration of the minimum funding requirement)	50
Effect of the asset ceiling	(294)
Net defined benefit liability	(244)

IE20. When the contributions of CU300 are paid into the plan, the net defined benefit asset will become CU56 (CU300 – CU244).

Example 4: Effect of a Prepayment when a Minimum Funding Requirement Exceeds the Expected Future Service Charge

IE21. An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.

IE22. Plan D has a surplus of CU35 at the beginning of 20X1. This example assumes that the discount rate and expected return on assets are 0 per cent, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

IE23. The minimum contributions required to cover future service are CU15 for each of the next five years. The expected service cost is CU10 in each year.

IE24. The entity makes a prepayment of CU30 at the beginning of 20X1 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to CU65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

Year	Service cost (CU)	Minimum funding requirement contribution before prepayment (CU)	Minimum funding requirement contribution after prepayment (CU)
20X1	10	15	0
20X2	10	15	0
20X3	10	15	15
20X4	10	15	15
20X5	10	15	15
Total	50	75	45

IE25. In accordance with paragraphs AA19 and AA21 of Appendix AA, at the beginning of 20X1, the economic benefit available as a reduction in future contributions is the sum of:

(a) CU30, being the prepayment of the minimum funding requirement contributions; and

(b) Nil. The estimated minimum funding requirement contributions required for future service would be CU75 if there was no prepayment. Those contributions exceed the estimated future service cost (CU50); therefore, the entity cannot use any part of the surplus of CU35 noted in paragraph IE22 (see paragraph AA21).

IE26. Assuming a discount rate of 0 per cent, the present value of the economic benefit available as a reduction in future contributions is equal to CU30. Thus, in accordance with paragraph 66 of IPSAS 39, the entity recognizes a net defined benefit asset of CU30 (because this is lower than the surplus of CU65).

Comparison with IAS 19

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- 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 includes authoritative text in Appendix AA, based on guidance in IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, issued by the IASB in 2007 and amended in 2009. The IASB issues IFRICs as separate documents.

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Amendment: Part 5 – Levies

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

Paragraphs 110B and 111P, Appendix B (paragraphs B1-B8), Appendix C (paragraphs C1-C13), and Appendix D (paragraphs D1-D11) are added. New text is underlined.

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Transitional Provision

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110B. *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year] added Appendix B, Appendix C, and Appendix D. Changes in accounting policies and changes in accounting estimates shall be accounted for according to the requirements of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Effective Date

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111P. Appendix B (paragraphs B1-B8), Appendix C (paragraphs C1-C13), and Appendix D (paragraphs D1-D11) were added by *[draft] Amendments to Consider IFRIC Interpretations*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, [Year], it shall disclose that fact.

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Appendix D

Levies

This Appendix is an integral part of IPSAS 19.

Introduction

D1. A government may impose a levy on an entity, which may be a transfer expense for the entity in the scope of IPSAS 48, *Transfer Expenses*. Entities that are required to pay levies will need to determine when it should recognize a liability to pay the levy in accordance with this Standard. This Appendix addresses the accounting for a liability to pay a levy if that liability is within the scope of this Standard. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

D2. For the purposes of this Appendix, a levy is a transfer of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e., laws and/or regulations), other than:

(a) Those transfers of resources that are within the scope of other Standards; and

(b) Fines or other penalties that are imposed for breaches of the legislation.

D3. A payment made by an entity for the acquisition of an asset, or for the rendering of services under a binding arrangement with a government, does not meet the definition of a levy.

D4. This Appendix does not address the accounting for the costs that arise from recognizing a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense. An entity is not required to apply this Appendix to liabilities that arise from emissions trading schemes.

D5. To clarify the accounting for a liability to pay a levy, this Appendix addresses the following issues:

(a) What is the obligating event that gives rise to the recognition of a liability to pay a levy?

(b) Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?

(c) Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

(d) Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?

(e) What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Application of IPSAS 19 to Levies

D6. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

D7. An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

D8. The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

D9. The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time (i.e., if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognized as the entity generates that revenue.

D10. If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs D6–D11 of this Appendix (in particular, paragraphs D6 and D9). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognized when that minimum activity threshold is reached.

D11. An entity shall recognize an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 19.

…

Revisions of IPSAS 19 as a result of *[draft] Amendments to Consider IFRIC Interpretations*

BC27. The IPSASB reviewed the requirements of the following IFRIC Interpretations, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions:

a) IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, issued by the IASB in 2004;

b) IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, issued by the IASB in 2004; and

c) IFRIC 21, *Levies*, issued by the IASB in 2013.

The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS. The IPSASB concluded that guidance based on IFRIC 1, IFRIC 5, and IFRIC 21 were best situated in this Standard.

…

Illustrative Examples

~~*This example accompanies*~~ *These examples accompany, but ~~is~~ are not part of, IPSAS 19.*

…

Levies

IE21. Examples 5-8 illustrate how an entity should account for a liability to pay a levy in its annual financial statements.

Example 5: A levy is triggered progressively as the entity generates revenue

IE22. Entity A has an annual reporting period that ends on December 31. In accordance with legislation, a levy is triggered progressively as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X1.

IE23. In this example, the liability is recognized progressively during 20X1 as Entity A generates revenue, because the obligating event, as identified by the legislation, is the generation of revenue during 20X1. At any point in 20X1, Entity A has a present obligation to pay a levy on revenue generated to date. Entity A has no present obligation to pay a levy that will arise from generating revenue in the future.

Example 6: A levy is triggered in full as soon as the entity generates revenue

IE24. Entity B has an annual reporting period that ends on December 31. In accordance with legislation, a levy is triggered in full as soon as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X0. Entity B generated revenue in 20X0 and in 20X1 starts to generate revenue on January 3, 20X1.

IE25. In this example, the liability is recognized in full on January 3, 20X1 because the obligating event, as identified by the legislation, is the first generation of revenue in 20X1. The generation of revenue in 20X0 is necessary, but not sufficient, to create a present obligation to pay a levy. Before January 3, 20X1, Entity B has no present obligation to pay a levy. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the point at which Entity B first generates revenue in 20X1. The generation of revenue in 20X0 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenue generated in 20X0 only affects the measurement of the liability.

Example 7: A levy is triggered if the entity generates revenue above a minimum amount of revenue

Case A: Levy Based on Revenue Generated Above a Minimum Threshold

IE26. Entity D has an annual reporting period that ends on December 31. In accordance with legislation, a levy is triggered if an entity generates revenue above CU50 million in 20X1[1]. The amount of the levy is calculated by reference to revenue generated above CU50 million, with the levy rate at 0 per cent for the first CU50 million revenue generated (below the threshold) and 2 per cent above CU50 million revenue. Entity D's revenue reaches the revenue threshold of CU50 million on July 17, 20X1.

IE27. In this example, the liability is recognized between July 17, 20X1 and December 31, 20X1 as Entity D generates revenue above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (i.e., the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date that exceeds the threshold of CU50 million revenue.

Case B: Levy Based on Revenue Generated Above and Below a Minimum Threshold

IE28. Same fact pattern as above (i.e., a levy is triggered if Entity D generates revenue above CU50 million in 20X1), except that the amount of the levy is calculated by reference to all revenue generated by Entity D in 20X1 (i.e., including the first CU50 million revenue generated in 20X1).

IE29. In this example, the liability for the payment of the levy related to the first CU50 million revenue is recognized on July 17, 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenue generated above the threshold is recognized between July 17, 20X1 and December 31, 20X1 as the entity generates revenue above the threshold, because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (i.e., the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date, including the first CU50 million revenue.

…

[1] Currency amounts are denominated in 'currency units' (CU).

Comparison with IAS 37

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- IPSAS 19 provides additional guidance on collective and individual services. It explains that public sector entities do not recognize a provision for "collective and individual services."
- IPSAS 19 includes authoritative text based on IFRIC Interpretations, whereas the IASB issues IFRICs as separate documents: Specifically, IPSAS 19 includes:
    - Appendix B, based on guidance in IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities;*
    - Appendix C, based on guidance in IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and*
    - Appendix D, based on IFRIC 21, *Levies*.

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